



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

# *Montana State University*

*For the Year Ended June 30, 2007*

DECEMBER 2007

LEGISLATIVE AUDIT  
DIVISION

07-11

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**FINANCIAL AUDITS**

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Angie Grove

December 2007

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial audit report on Montana State University's (university) consolidated financial statements for the fiscal year ended June 30, 2007, and June 30, 2006. The university requested this audit to provide timely audited financial statements to interested parties. The objective of our audit was to determine if the university's financial statements present fairly its financial position, changes in financial position, and its cash flows as of, and for the fiscal year ended, June 30, 2007. This objective included determining the university's compliance with laws and regulations having a direct and material impact on the financial statements. Our opinion, as it relates to the financial statements at and for the fiscal year ended June 30, 2006, is based on the audit we performed in the fall of 2006.

Montana State University consists of campuses located in Bozeman, Billings, Havre, and Great Falls. All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The Montana State University campuses provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

Montana State University-Bozeman was founded in February 1893 as the Agricultural College of the state of Montana. It is a land-grant institution, authorized by the Morrill Act of 1862, and receives part of its support from land-grant income. The campus offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes the Colleges of Agriculture, Arts and Architecture, Business, Education, Health and Human Development, Engineering, Letters and Science, and Nursing, and the Division of Graduate Education. The Bozeman campus also includes the Extension Service, the Agricultural Experiment Station, and the Fire Services Training School, which have facilities located in or near cities or towns throughout Montana.

Montana State University-Billings consists of six colleges: the College of Arts and Sciences, the College of Business, the College of Education, the College of Allied Health Professions, the College of Technology, and the College of Professional Studies and Lifelong Learning. Montana State University-Billings offers a full complement of one-year and two-year certificate programs, associate, bachelor, and master degrees, as well as pre-professional academic offerings in a number of fields.

Montana State University-Northern is a regional, multi-purpose educational center, serving students who seek both a technical and liberal arts education. It offers courses at the campus in Havre and at facilities in Great Falls and Lewistown. This campus offers associate, bachelor, and master degrees. A master's degree program is offered in education, with options in counseling and development, elementary education, vocational education, and general science.

Montana State University College of Technology-Great Falls offers instruction leading to certificates in one-year programs and associate of applied science degrees or associate of science in two-year programs in vocational-technical trades and industry. Programs include practical nursing, office/secretarial, interior design technology, computer and information sciences, various health-related programs, auto body repair and refinishing, dental hygiene, and business management/entrepreneurship.

A list of appointed and administrative officials having oversight responsibilities with respect to the university can be found beginning on page ii.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion on the university's consolidated financial statements, which means the reader can rely on the presented information.

This report does not contain any recommendations to the university. Any issues resulting from this financial audit have been discussed with university management. The university's response to this report is on page B-1.

We thank President Gamble and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

*/s/ Scott A. Seacat*

Scott A. Seacat  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Board of Regents of Higher Education

Lynn Morrison-Hamilton, Chair

Stephen Barrett, Vice Chair

Todd Buchanan, Regent

Clayton Christian, Regent

Kerra Melvin, Regent

Janine Pease, Regent

Lila Taylor, Regent

Brian Schweitzer, Governor\*

Linda McCulloch, Superintendent of Public Instruction\*

\*Ex officio member of the Board of Regents of Higher Education

### Office of the Commissioner of Higher Education

Sheila Stearns\*

Commissioner of Higher Education

Roger Barber

Deputy Commissioner for Academic and Student  
Affairs

Mick Robinson

Associate Commissioner for Fiscal Affairs

Tyler Trevor

Associate Commissioner for Research, Technology  
and Communication

Frieda Houser

Director of Accounting and Budget

Cathy Swift

Chief Legal Counsel

### Montana State University- All Campuses

Geoffrey Gamble

President

Rolf Groseth

Vice President for Intercampus Affairs

Leslie Taylor

Legal Counsel

Ila Saunders

Interim Director Internal Audit

### Montana State University- Bozeman

David Dooley

Provost and Vice President for Academic Affairs

Craig Roloff

Vice President for Administration and Finance

Thomas McCoy

Vice President for Research, Creativity and  
Technology Transfer

<b>Montana State University- Bozeman</b> <i>(continued)</i>	Leslie Schmidt	Assistant Vice President for Research, Creativity, and Technology Transfer
	Allen Yarnell	Vice President of Student Affairs
	Laura Humberger	Assistant Vice President for Financial Services
	Kathy Attebury	Budget Director
<b>Montana State University- Billings</b>	Ronald P. Sexton	Chancellor
	George White	Interim Provost and Academic Vice Chancellor
	Stacy Klippenstein	Vice Chancellor of Student Affairs
	Terrie Iverson	Administrative Vice Chancellor
	LeAnn Anderson	Director of Financial Services
	Jim Nielsen	Director of Business Services
	Stacey Horsfall	Budget Officer
<b>Montana State University- Northern</b>	Alex Capdeville	Chancellor
	Chuck Jensen	Vice Chancellor for Finance and Administration/ Student Affairs
	Joseph Callahan	Interim Provost and Vice Chancellor
<b>Montana State University College of Technology- Great Falls</b>	Mary Sheehy Moe	Dean
	Mary Ellen Baukol	Associate Dean for Administration and Finance
	Joe Schaffer	Associate Dean/CAO for Academic Programs
	Heidi Pasek	Associate Dean/CAO for Instruction and Assessment
	Judy Hay	Assistant Dean of Student Services
	Vicki Orazem	Assistant Dean, College of Technology in Bozeman
	Ed Binkley	Controller
	Deby Gunter	Budget/Purchasing Officer

**Montana Agricultural  
Experiment Stations**

Jeffrey Jacobsen

Director

Jody Barney

Budget Fiscal Director

**Montana Extension  
Service**

Douglas Steele

Vice Provost and Extension Director

Sandra Rahn-  
Gibson

Budget and Fiscal Director

For additional information concerning the Montana State University, (all campuses) contact:

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# LEGISLATIVE AUDIT DIVISION

A-1

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Angie Grove

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Consolidated Statements of Net Assets of Montana State University, a component unit of the state of Montana, as of June 30, 2007, and 2006, and the related Consolidated Statements of Revenues, Expenses and Changes in Net Assets and Consolidated Statements of Cash Flows for the fiscal years then ended and the University Component Units Combined Statements of Financial Position as of June 30, 2007, and 2006, and the related University Component Units-Combined Statements of Activities for the fiscal years then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements include the Montana State University Foundation, the Museum of the Rockies Incorporated, the Montana State University-Billings Foundation, the Montana State University-Northern Foundation, and the Montana State University Bobcat Club. The component units identified above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Montana State University and the aggregate discretely presented component units as of June 30, 2007, and 2006, and the respective changes in financial position and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages A-3 through A-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries

of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Montana State University. The Supplemental Information on pages A-50 through A-66 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

November 13, 2007

**Montana State University  
Management's Discussion and Analysis,  
Financial Statements, Notes, and Supplemental Information**

# Montana State University

(a component unit of the State of Montana)

## Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2007

Montana State University is a land grant university that serves state, national and international communities by providing academic instruction, conducting a high level of research activity, advancing fundamental knowledge, and by disseminating knowledge to the people of Montana. The University encompasses four campuses located in Bozeman, Billings, Great Falls and Havre, as well as the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School. The University operates throughout Montana's 145,556 square miles of urban and rural communities housing an estimated population of 944,632.

The University and its students are in a unique position. The number of high school graduates in Eastern Montana continues to decline, which requires that the University ensure diligent recruiting of in-state students, while modifying its mix of traditional in-state, out-of-state, and out-of-area students to ensure a diverse, growing student population. At the same time that the University's student population is changing, employee salary and benefit needs continue to grow as the cost of living in Montana rises.

Given these significant changes, the University is proud to continue delivering quality instruction and services to a diverse student population, which is possible because of its dedicated faculty and staff, because its students recognize quality and value, and because accountability and the wise stewardship of University resources are simply a way of life.

## OPERATIONS

### Condensed Statements of Revenues, Expenses and Changes in Net Assets

(in millions)

	2007	2006	2005
Operating revenues	\$ 302.7	\$ 297.6	\$ 280.1
Operating expenses	396.3	383.0	361.9
Operating loss	( 93.6)	(85.4)	(81.8)
Non-operating revenues and expenses (net)	102.0	97.3	86.5
Income before capital & other items	8.4	11.9	4.7
Capital & other items	14.8	5.0	5.2
Change in net assets	\$ 23.2	\$ 16.9	\$ 9.9

The *Statement of Revenues, Expenses and Changes in Net Assets* presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating". This distinction results in operating deficits for those institutions that depend on gifts and State aid, which are classified as non-operating revenue. The utilization of capital assets is reflected in the financial statements as depreciation expense, which allocates the cost of assets over their expected useful lives.

### Comparison of 2007 and 2006 Results of Operations

The University's net assets increased \$23.2 million during 2007, resulting largely from \$13.0 million in assets provided by the State of Montana ("State") through its long-range building program. Included in the \$13.0 million provided by the State were \$5.7 million related to the MSU Great Falls College of Technology's new instructional building, and \$3.7 million provided to MSU Billings for a new College of Technology instructional building. An additional \$2.3 million in capital gifts, grants and contributions, were received from outside sources, and excesses of revenue over expense totaling \$7.9 million, discussed below, contributed to the overall increase.

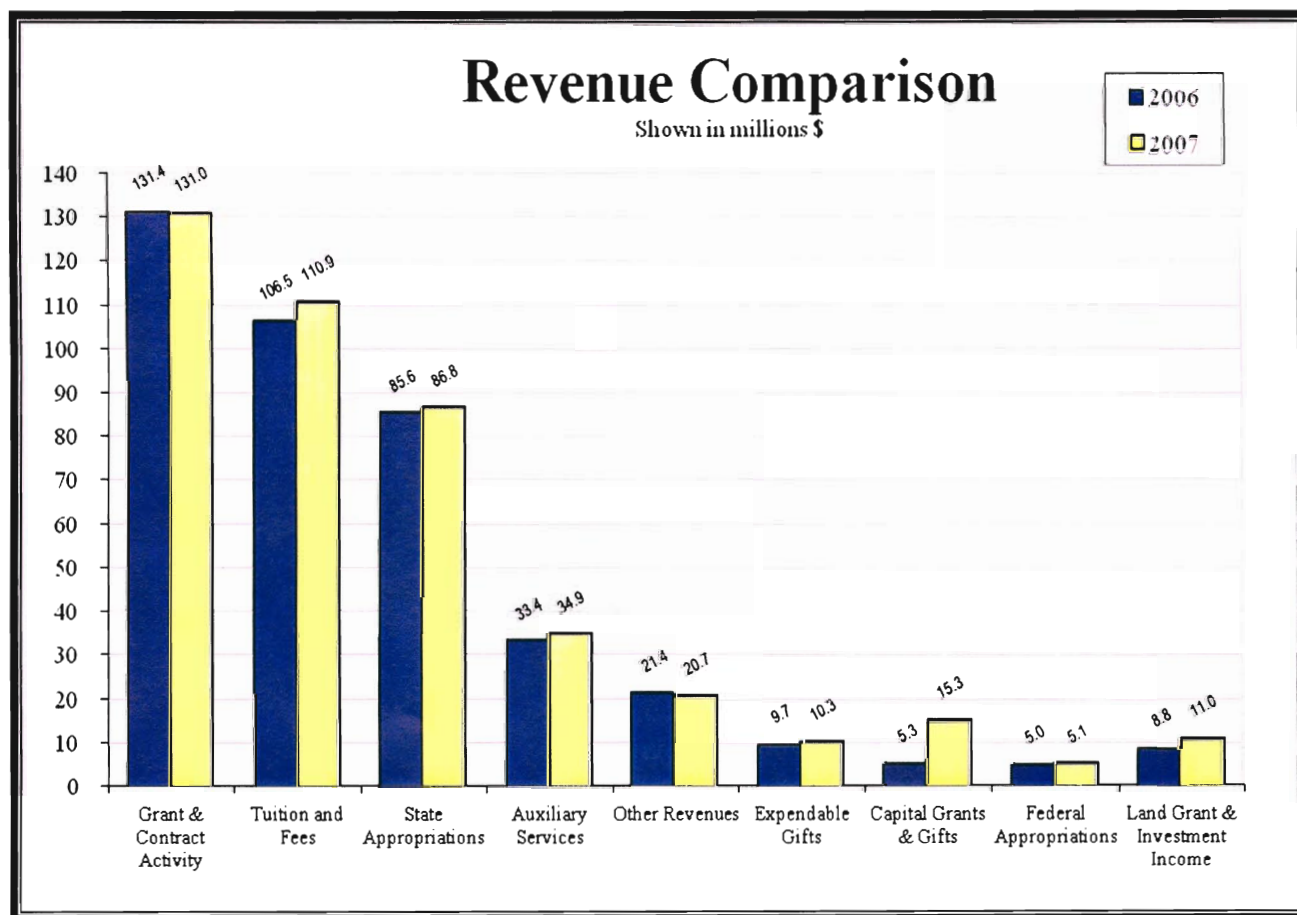
**Operating revenues** contain the majority of the University's income, and increased \$5.1 million from 2006 to 2007. Tuition and fee revenues increased approximately \$4.4 million, or 4.1%. While the number of full-time equivalent students decreased 1.1% compared with 2006, the primary reason for increased tuition and fee revenue was an approximate 7.7% average tuition increase, coupled with a slight increase in non-resident students, who pay more than the full cost of education.



Operating revenues from auxiliary services, including housing and dining revenues, increased \$1.6 million, or 4.7%. Price increases were implemented to ensure coverage of increased costs, including food and utilities. Financial aid revenues total over \$19.8 million, which was consistent with 2006 revenues of \$19.5 million.

The University maintains a vibrant Research and Creative Activities function that contributed \$111.2 million in 2007, comparable to 2006 revenues of \$111.9 million.

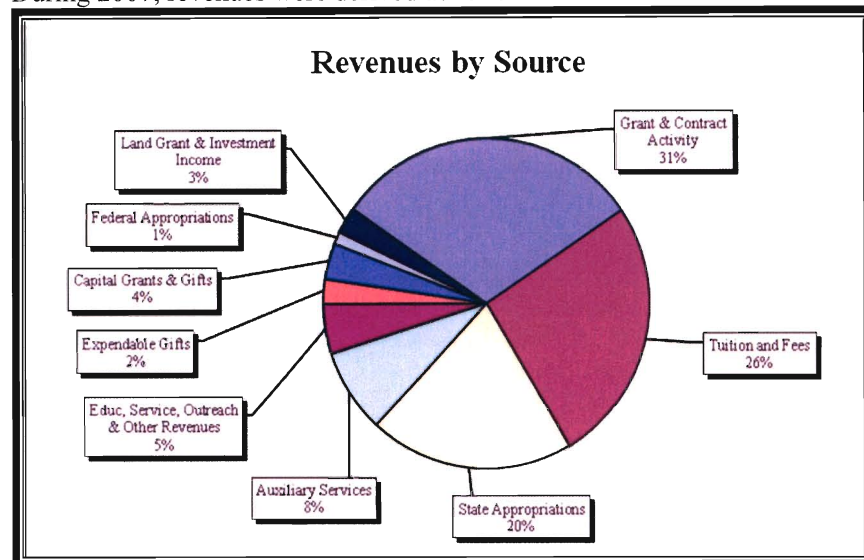
**Non-operating revenue** increased \$4.7 million from 2006 to 2007. State appropriations revenue increased \$1.2 million, from \$85.6 million to \$86.8 million. Included in the 2006 appropriations were one-time state appropriations of \$1.4 million earmarked for equipment purchases and program development. Investment income increased \$2.3 million, or 35.6%. The primary vehicle for investing is the State's Short-Term Investment Pool (STIP). STIP rates averaged 4.25% in 2006 and 5.35% in 2007. In addition, the University's endowments, which are managed by the MSU Foundation, performed well, generating significant spendable earnings.



**Montana State University**  
(a component unit of the State of Montana)  
**Management's Discussion and Analysis**  
As of and For Each of the Two Years Ended June 30, 2007

(continued)

During 2007, revenues were derived as follows:

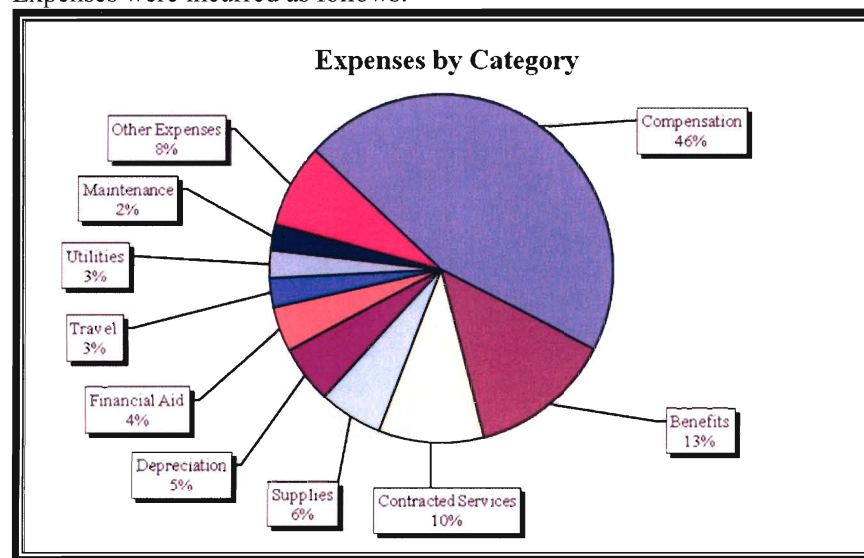


*(in millions)*

Source	Amount
Grant & Contract Activity	\$ 131.0
Tuition and Fees	110.9
State Appropriations	86.8
Auxiliary Services	34.9
Gifts	10.3
Land Grant & Investment Income	11.0
Capital Grants & Gifts	15.3
Federal Appropriations	5.1
Educational, Public Service, and Outreach	19.5
Other Revenues	1.2
<b>Total Revenues</b>	<b>\$ 425.9</b>

Sources of recurring revenues are expected to remain strong, with a trend toward higher levels of University-generated revenues such as grant and contract activity, and other entrepreneurial activities.

Expenses were incurred as follows:



*(in millions)*

Category	Amount
Compensation	\$ 183.6
Benefits	53.9
Contracted Services	37.5
Supplies	26.6
Depreciation	21.6
Financial Aid	16.8
Travel	11.2
Utilities	10.2
Maintenance	9.6
Other Expenses	6.0
Interest Expense	5.9
Cost of Sales	4.5
Communication	4.5
Rent	10.4
<b>Total expenses</b>	<b>\$ 402.3</b>

Proportions of revenues and expenses have generally remained constant as compared with prior years. Revenues are derived primarily from grant and contract activity, student charges, and state appropriations. Expenses are primarily employee-related. These relationships are expected to continue.

## Montana State University

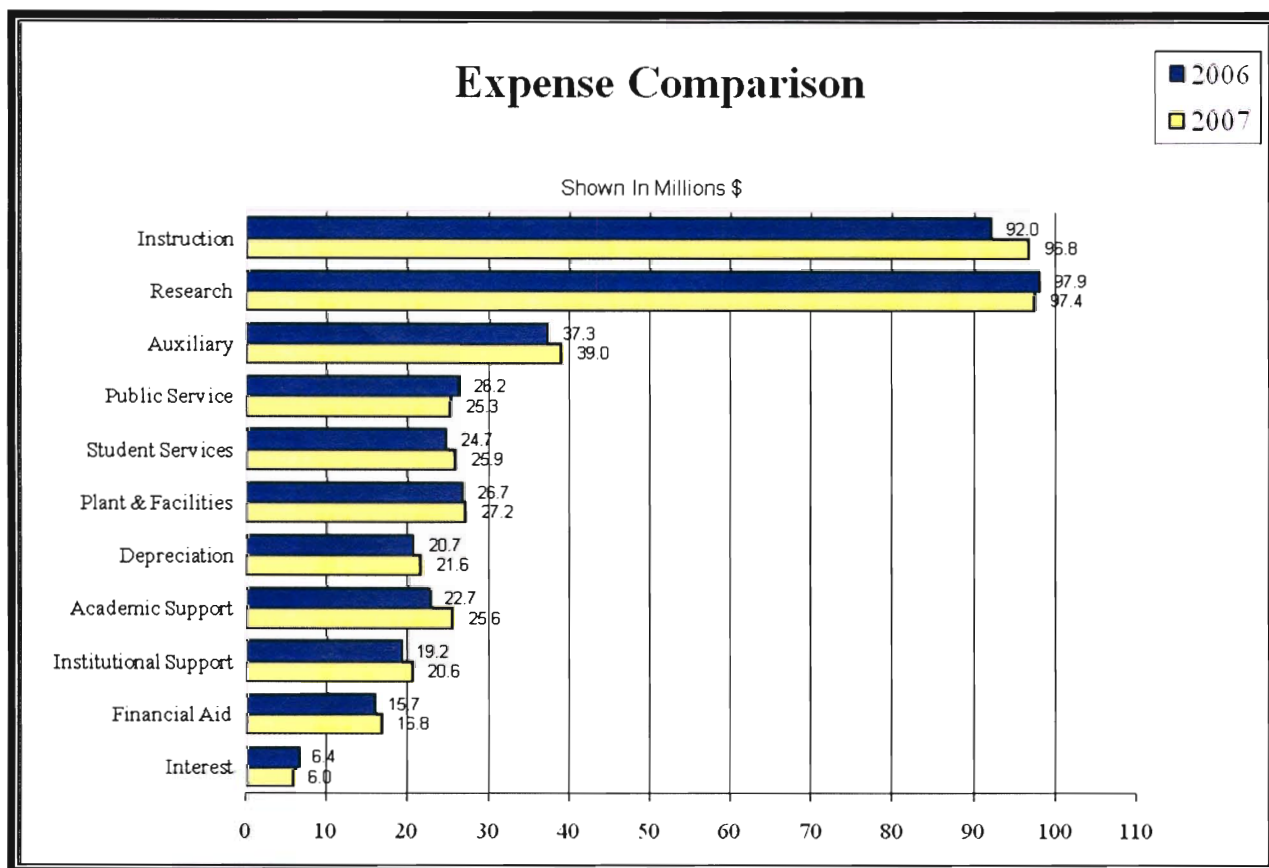
(a component unit of the State of Montana)

### Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2007

(continued)

- **Operating expenses** increased \$13.3 million. Instruction expenses increased \$4.8 million, or 5.2%, primarily due to increased compensation costs. Research expenses showed a slight decline, due to curtailed spending on certain federal grant programs. Auxiliary services expenses increased \$1.7 million, primarily due to increased compensation costs. Student services expenses increased \$1.2 million, primarily due to increased compensation and benefits expenses. Plant, facilities, and depreciation costs did not increase significantly, because a lower percentage of these costs are compensation-related, and because utility costs remained steady. Academic support and institutional support expenses increased, again primarily due to increased compensation and benefits costs. Additionally, costs of on-line library subscriptions increased. Interest expense decreased slightly due to the retirement of the University's series F debt, and because in July, 2006, the University refunded its remaining Series D and a significant portion of its Series E debt to take advantage of attractive interest rates.



# Montana State University

(a component unit of the State of Montana)

## Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2007

(continued)

### Comparison of 2006 and 2005 Results of Operations

The University's net assets increased \$16.9 million during 2006, resulting largely from \$5.3 million in capital gifts, grants and contributions, \$0.4 million of permanent endowment contributions, and excesses of revenue over expense totaling \$11.2 million. In addition, \$0.4 million in assets were provided by the State of Montana under authorization from its long-range building program.

- **Operating revenues** increased \$17.6 million from 2005 to 2006. Tuition and fee revenues increased approximately \$10.7 million, or 11.3%. The University's freshman class has increased during each of the past several years. While the number of full-time equivalent students increased 1.2% compared with 2005, the primary reason for increased tuition and fee revenue was an approximate 12.4% average tuition increase, coupled with an increase in non-resident students, who pay more than the full cost of education.

Operating revenues from education, public service and outreach areas increased \$1.7 million, and housing and room and board revenues saw a \$2.0 million increase. Financial aid revenues totaled over \$19.5 million, representing a decrease of over \$1.5 million from 2005. Fewer students received Pell grants in 2006 than in 2005, because of a change in the Federal Aid formula for calculating Pell grant eligibility.

The University's Research and Creative Activities contributed \$111.9 million in 2006, which increased \$3.8 million as compared with 2005 revenues of \$108.1 million.

- **Non-operating revenue** increased \$17.3 million from 2005 to 2006. State appropriations revenue increased \$8.5 million, from \$77.1 million to \$85.6 million. Included in the \$8.5 million increase are one-time state appropriations of \$1.4 million earmarked for equipment purchases and program development. In 2004, the University was permitted to use \$2.5 million of its 2005 appropriation so that tuition increases could be evenly implemented during each year of the 2004-2005 biennium. Had this amount not been forward-funded, the appropriations would have been approximately \$79.6 million during 2005.

Investment income increased \$3.5 million. STIP rates averaged 2.28% in 2005, and 4.25% in 2006. In addition, the University invested approximately \$40.6 million of unexpended bond proceeds during 2006, as compared with \$21.1 million during 2005.

- **Operating expenses** increased \$21.1 million. Instruction and research activities together constitute approximately half of the University's expenses, and were two of the primary programs showing a marked increase, consistent with higher enrollment, a growing research program and increasing compensation costs.

Auxiliary services expenses increased \$2.9 million, reflecting increased costs in all areas including utilities, contracted services, and compensation. Student services expenses increased \$2.5 million, primarily due to increased compensation and benefits expenses. Plant and facilities expenses increased \$1.2 million as compared with 2005, due primarily to an increase in energy costs, which overall added \$1.4 million to operating expenses. Academic support expenses increased \$2.8 million, due to increased library subscription costs and compensation and benefits expenses. Interest expense increased \$1.5 million due to the issuance of Series J debt in July of 2005, as well as slightly higher rates on the University's Series G variable rate debt.

**ASSETS, LIABILITIES AND NET ASSETS**

**Condensed Statements of Net Assets**  
*(in millions)*

ASSETS	2007	2006	2005
Current assets	\$ 137.8	\$ 127.0	\$ 116.5
Capital assets, net	286.6	249.2	242.2
Other noncurrent assets	59.7	84.8	62.3
Total assets	\$ 484.1	\$ 461.0	\$ 421.0
<b>LIABILITIES</b>			
Current liabilities	\$ 56.1	\$ 54.0	\$ 53.6
Noncurrent liabilities	165.8	168.0	145.3
Total liabilities	\$ 221.9	\$ 222.0	\$ 198.9
<b>NET ASSETS</b>			
Invested in capital assets, net	\$ 169.8	\$ 157.1	\$ 151.7
Restricted, expendable	13.4	11.8	10.8
Restricted, non-expendable	12.2	11.7	11.1
Unrestricted	66.8	58.4	48.4
Total net assets	\$ 262.2	\$ 239.0	\$ 222.1

The *Statement of Net Assets* is presented in a classified format, which differentiates between current and non-current assets and liabilities, and also categorizes Net Assets (formerly called "Fund Balance") into four categories.

The University's overall financial position is strong, with Net Assets showing an increase of \$23.2 million from the prior year.

**Comparison of 2007 and 2006 Assets, Liabilities and Net Assets**

- **Current assets** include the University's cash; accounts, grants and loans receivable; inventories; and other assets expected to benefit the University within one year. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. The increase of \$10.8 million in current assets resulted primarily from an increase of \$13.2 million in current cash and equivalents, which is discussed in detail in conjunction with the Statement of Cash Flows, as well as fluctuations in several other current asset categories.
- **Capital assets, net** increased \$37.4 million, resulting from asset additions of \$59.3 million, offset by depreciation expense of \$21.3 million and \$0.6 million in net book value of asset retirements, as summarized in Note 7 to the financial statements.

Asset additions included nearly \$50 million in construction projects. The MSU Great Falls College of Technology is in the process of constructing a new classroom building, which when completed, will cost approximately \$12 million. Costs of \$5.7 million were added to the building during 2007. MSU- Billings is constructing a new instructional building for its College of Technology, which added \$3.7 million during 2007. MSU- Northern expended approximately \$0.8 million on a campus improvement project, which included improved landscaping, pedestrian walkways, and relocation of a parking lot.

MSU- Bozeman's chemistry/biochemistry research facility, which will total approximately \$25 million upon completion, added \$13.4 million in construction progress during 2007. Also in Bozeman, construction continued on a \$30 million student facilities enhancement project, contributing \$14.2 million in capital assets during 2007. Three student facilities will be improved during the project, including renovation of the student union building and fitness center complex, and construction of a new theater. A number of smaller projects make up the remaining increase.



Equipment additions totaled \$8.5 million during 2007. Research and instruction in the sciences require a substantial equipment investment. In 2007, MSU invested in significant scientific equipment, including many grant-funded and donated items. Additionally, approximately \$1.6 million in library materials were acquired in 2007.

**Other noncurrent assets** include unexpended bond proceeds, endowment fund assets, student loans receivable, investments expected to mature over a period longer than one year, and donated funds restricted to use for facility construction. The balance decreased \$25.1 million, primarily because bond proceeds that were held at June 30, 2006 for the Bozeman campus construction projects were expended during 2007.

- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, and debt principal payments due within one year. The balance increased \$2.1 million from 2006 to 2007, due to a \$0.9 million increase compensated absences balances, an increase of \$0.7 million in the current portion of debt, and other, less significant, increases and decreases.
- **Noncurrent liabilities** include debt and advance liabilities, the amount of compensated absence liability estimated to be payable after a one-year period, and amounts which would be payable to the Federal government should the University choose to cease participation in the Federal Perkins Loan or Nursing Loan programs. These balances decreased \$2.2 million, resulting primarily from the repayment of long term debt obligations.
- Amounts **invested in capital assets, net of related debt**, consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Balances increased \$12.6 million due to asset additions and debt repayment, offset by depreciation expense.
- **Restricted, expendable net assets** represent balances that may be expended by the University, but only in accordance with restrictions imposed upon the University by an external party, such as a donor or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities and for scholarships. Approximately \$3.2 million is held by trustees in accordance with bond covenants, and may only be expended for the renewal and replacement of assets whose revenues are pledged as security for the repayment of debt or for debt service. An additional \$2.9 million relates to amounts held on the University's behalf by the MSU Foundation, which is to be expended for the construction of an agricultural research facility. Debt retirement funds account for \$1.8 million of the restricted balance. Expendable scholarship amounts totaled \$2.6 million, which increased significantly due to earnings on endowment funds.
- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as balances in student loan funds. Balances did not fluctuate significantly during 2007.

**Unrestricted net assets** may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, funds earmarked for facility renewal and replacement, and student organization funds. Details regarding the purposes for which unrestricted net assets are designated are contained in Note 13 to the audited financial statements.

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**Comparison of 2006 and 2005 Assets, Liabilities and Net Assets**

- **Current assets** increased \$10.5 million, resulting from an increase of \$7.1 million in current cash and equivalents, which is discussed in detail in conjunction with the Statement of Cash Flows, as well as fluctuations in several other current asset categories.
- **Capital assets, net** increased \$7.1 million, resulting from asset additions of \$28.5 million, offset by depreciation expense of \$20.6 million and \$0.8 million in net book value of asset retirements, as summarized in Note 7 to the financial statements.

Asset additions included \$13.7 million in capitalized construction projects. MSU- Bozeman's chemistry/biochemistry research facility added \$6.3 million in construction progress during 2006, and design and construction on the \$28 million student facilities enhancement project contributed \$1.7 million in capital assets during 2006. A number of smaller projects made up the remaining increase.

Equipment additions totaled \$8.1 million during 2006. In 2006, MSU invested in many scientific acquisitions, including a tunable laser system, a multi-user computer server cluster, dynamometers, and a confocal microscope with a fluorescence and radioactivity laser scanner. Such equipment acquisitions included many grant-funded items. Approximately \$2.1 million in library materials were acquired in 2006.

- **Other noncurrent assets** increased \$29.5 million, due to two primary factors. Restricted investments included an additional \$24.3 million in unexpended bond proceeds related to the Series J debt issued for Student Facilities Enhancements. Additionally, the University invested an additional \$5.0 million in the State's Trust Fund Bond Pool that was previously held as cash or in the State's Short-Term Investment Pool.
- **Current liabilities** balances did not fluctuate significantly from 2005 to 2006.
- **Noncurrent liabilities** balances increased \$22.7 million, resulting from the issuance of Series J 2005 bonds in the amount of \$25.8 million in July, 2005, offset by scheduled repayments of bond principal. Other, less significant, fluctuations also contributed to the overall increase.
- Amounts **invested in capital assets, net of related debt**, increased \$5.4 million due to asset additions and debt repayment.
- **Restricted, expendable net assets** represent balances that may be expended by the University, but only in accordance with restrictions imposed upon the University by an external party, such as a donor or through a legislative mandate. The University's significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities. Approximately \$4.7 million was held by trustees in accordance with bond covenants, and may only be expended for the renewal and replacement of assets whose revenues are pledged as security for the repayment of debt. An additional \$2.8 million related to amounts held on the University's behalf by the MSU Foundation, which is to be expended for the construction of an agricultural research facility. Debt retirement funds accounted for \$1.1 million of the restricted balance.
- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as the University portion of student loans receivable under the Federal Perkins and Nursing Loan programs. Balances increased \$0.5 million during 2006, primarily from endowment fund gifts additions of \$0.4 million.
- **Unrestricted net assets** may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, funds earmarked for facility renewal and replacement, and student

organization funds. Details regarding the purposes for which unrestricted net assets are designated are contained in Note 13 to the audited financial statements.

## CASH FLOWS

### Condensed Statements of Cash Flows (in millions)

	2007	2006	2005
Cash provided/(used) by:			
Operating activities, net	\$ (70.0)	\$ (64.1)	\$ (55.1)
Noncapital financing activities, net	100.2	95.9	89.3
Capital and related financing activities, net	(51.6)	(7.8)	(1.9)
Investing activities, net	35.9	(16.8)	(34.3)
Net increase (decrease) in cash	14.5	7.2	(1.9)
Cash, beginning of year	92.3	85.1	87.0
Cash, end of year	\$ 106.8	\$ 92.3	\$ 85.1

The **Statement of Cash Flows** presents information related to cash inflows and outflows, categorized by operating, noncapital financing, capital financing, and investing activities. The reconciliation of operating loss to cash used in operations explains the relationship between the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, showing that increases and decreases in operating assets often require the use or receipt of cash, but do not result in recognition of a revenue or an expense.

### Comparison of 2007 and 2006 Cash Flows

Cash and equivalents increased \$14.5 million during 2007, as discussed below.

- **Operating activities** used \$70.0 million in cash, resulting primarily from an operating loss of \$93.7 million. The operating loss was offset by non-cash expenses of \$22.2 million, primarily depreciation and amortization. Other, less significant, increases and decreases also contributed to the change. As discussed above, compensation expenses were the primary reason for increased costs in 2007 as compared with 2006. In 2006, operating activities used \$64.1 million in cash, resulting from an operating loss of \$85.4 million, offset by non-cash expenses of \$21.2 million.
- **Noncapital financing activities** provided \$100.2 million in cash, resulting from \$88.0 million in state appropriations, \$2.2 million of land grant income, and \$10.2 million in expendable gifts. In the prior year, noncapital financing activities provided \$95.9 million in cash, resulting from \$84.4 million in state appropriations, \$2.3 million of land grant income, and \$9.3 million in expendable gifts. Gifts were received primarily from foundations and other support organizations.
- **Capital and related financing activities** used \$51.6 million in cash, which is a significant increase from the prior year. Uses included \$44.3 million expended on capital assets, including building construction as discussed above. Debt interest and principal payments totaled \$10.8 million, not including refunded debt of \$13.2 million. Borrowings, primarily from the State's InterCap lending program, provided \$3.2 million in cash, not including proceeds from the issuance of refunding bonds. In the prior year, these activities used \$7.8 million in cash, resulting primarily from \$26.2 million received as bond proceeds, offset by \$10.8 million in debt interest and principal payments, and \$23.2 million expended to acquire capital assets.
- **Investing activities** provided \$35.9 million in cash, resulting primarily from the liquidation of \$27.3 million in bond proceeds that had been held in a long-term investment until needed to pay construction costs. Investment income provided \$8.6 million. In the prior year, investing activities used \$16.8 million, resulting from the purchase of \$32.0 million in investments that had been generated from the issuance of bonds, offset by proceeds from sales of



investments of \$8.6 million and investment income of \$6.7 million. In 2006, unexpended bond proceeds of \$24.3 million from the Series J 2005 issuance were invested until their use is required for the project. In addition, the University invested an additional \$5.0 million in the State of Montana's Trust Fund Bond Pool.

### **Comparison of 2006 and 2005 Cash Flows**

Cash and equivalents increased \$7.2 million during 2006, largely due to a \$3.8 million increase in investment income. During the prior year, cash decreased \$1.9 million. A year-to-year comparison of each type of cash flow follows.

- **Operating activities** used \$64.1 million in cash, resulting primarily from an operating loss of \$85.4 million. The operating loss was offset by non-cash expenses of \$21.2 million, primarily depreciation and amortization. Other, less significant, increases and decreases also contributed to the change.

In 2005, operating activities used \$55.1 million in cash, resulting primarily from an operating loss of \$81.8 million. The operating loss was offset by non-cash expenses of \$21.4 million, primarily depreciation and amortization. Collections on accounts and grants receivable contributed \$2.0 million in operating cash. Other, less significant, increases and decreases also contributed to the change.

- **Noncapital financing activities** provided \$95.9 million in cash, resulting from \$84.4 million in state appropriations, \$2.3 million of land grant income, and \$9.3 million in expendable gifts. In the prior year, noncapital financing activities provided \$89.3 million in cash, resulting from \$77.1 million in state appropriations, \$2.9 million of land grant income, and \$8.6 million in expendable gifts. Gifts were received primarily from foundations and other support organizations.
- **Capital and related financing activities** used \$7.8 million in cash, resulting primarily from \$26.2 million received as bond proceeds, offset by \$10.8 million in debt interest and principal payments, and \$23.2 million expended to acquire capital assets. In the prior year, these activities used \$1.9 million in cash, resulting primarily from \$57.2 million received as bond proceeds, offset by \$37.5 million in debt principal payments (including refunded debt of \$16.7 million), and \$19.6 million expended to acquire capital assets.
- **Investing activities** used \$16.8 million, resulting from the purchase of \$32.0 million in investments, offset by proceeds from sales of investments of \$8.6 million and investment income of \$6.7 million. Unexpended bond proceeds of \$24.3 million from the Series J 2005 issuance were invested until their use is required for the project. In addition, the University invested an additional \$5.0 million in the State of Montana's Trust Fund Bond Pool. In the prior year, investing activities used \$34.3 million, resulting from the purchase of \$37.5 million in investments, offset by investment income received of \$2.9 million. Unexpended bond proceeds of \$21.1 from the Series H 2004 issuance were invested until their use is required for the project. In addition, the University invested \$10.0 million in the State of Montana's Trust Fund Bond Pool, rather than in cash or cash equivalents as in prior years.

### **BONDS, NOTES, AND CAPITAL LEASES**

As of June 30, 2007, the University had approximately \$127.5 million in outstanding bond, note, and capital lease principal, a slight decrease compared with \$129.3 million at June 30, 2006 (see note 10 to the financial statements). During 2007, the University issued Series K refunding bonds, to refund the remaining Series D bonds and a substantial portion of Series E debt. The University's debt is rated A1 by Moody's Investor Services, and A+ by Standard and Poor's.

Most of the University's debt bears interest at fixed rates. The Series J debt is synthetically fixed through a swap agreement, and represents 20.5% of bonded indebtedness. The Series G debt, representing 14.3% of bonded indebtedness, bears interest at a variable rate, which is reset at auction each week. Additionally, the University has

entered into a constant maturity swap with a starting date of November, 2007, as discussed in the notes to the financial statements.

## **ECONOMIC OUTLOOK**

Montana State University, like many other institutions, has steadily increased its tuition rates to keep pace with increasing costs. Other recent revenue increases have been achieved through several means: the growth of grant and contract activity; focused recruitment and retention efforts towards increasing the complement of out-of state students; and continued encouragement of the entrepreneurial spirit maintained by many University faculty and staff. Tuition rates for the 2006-2007 academic year were slightly higher than our geographic peer group, although very affordable compared with national rates. It will be increasingly important to balance revenues with expenses to assure that access is achieved consistent with our land grant mission.

The State of Montana generated a budget surplus in the 2004-2005 biennium, and was able to direct one-time funds to the University, primarily the two-year campuses, for the 2006-2007 biennium. For the upcoming biennium, the Governor's office approved budget included funding sufficient to enable all Montana University System campuses to freeze in-state tuition for both the 2007-2008 and 2008-2009 academic years. Additions were also made in terms of the proportion of state funding for certain fixed costs and employee pay raises, including both regular compensation and retirement payouts.

The U.S. Census Bureau projects that, over the next twenty years, the population of Montanans ages 18 – 24 will decrease, affecting the University through a decreased number of high-school graduates. Resident enrollment in the Fall 2007 semester, subsequent to the June 30, 2007 fiscal year-end, reflected this trend. Continued monitoring and management of the University's recruiting and the mix of in- and out-of-state student population and tuition rates is crucial.

To assist in the allocation of its resources, management evaluates University programs regularly, and maintains a budgeting process that is open to the public. Accountability and stewardship of the University's assets are stressed by top management, as is excellence in the programs offered. University management will continue to determine the proper balance between spending and revenue, to ensure that quality programs remain while access to the University is not unduly limited by the cost of attendance.

**Montana State University**  
**a component unit of the State of Montana**  
**Consolidated Statements of Net Assets**  
**As of June 30**

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
<b>Current assets:</b>		
Cash and cash equivalents (see note 2)	\$ 105,438,245	\$ 92,218,809
Securities lending collateral	638,593	1,537,765
Accounts and grants receivable, net	7,002,945	7,479,652
Amounts receivable from Federal government	14,155,160	13,483,772
Amounts receivable from primary government	1,652,121	2,546,883
Amounts receivable from other State of Montana component units	38,678	24,027
Loans receivable, net	4,509,539	5,031,227
Inventories	2,774,906	2,728,555
Prepaid expenses and other current assets	1,641,810	1,987,100
<b>Total current assets</b>	<b>137,851,997</b>	<b>127,037,790</b>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents	1,388,768	71,542
Restricted investments	23,909,325	51,318,265
Loans receivable, net	17,332,822	16,664,970
Investments	15,913,870	15,744,195
Other assets	1,115,950	1,003,121
Capital assets, net (see note 7)	286,592,135	249,230,706
<b>Total noncurrent assets</b>	<b>346,252,870</b>	<b>334,032,799</b>
<b>Total assets</b>	<b>\$ 484,104,867</b>	<b>\$ 461,070,589</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 24,256,974	\$ 23,773,020
Amounts payable to primary government	3,666,425	3,101,350
Amounts payable to other State of Montana component units	392,099	428,548
Securities lending liability	638,593	1,537,765
Property held in trust for others	1,102,342	911,183
Deferred revenues	8,024,887	7,791,222
Compensated absences	13,035,293	12,160,174
Current portion debt and capital lease obligations (see note 10)	5,020,761	4,320,149
<b>Total current liabilities</b>	<b>56,137,374</b>	<b>54,023,411</b>
<b>Noncurrent liabilities:</b>		
Advances from primary government	8,830,319	8,550,869
Debt and capital lease obligations (see note 10)	122,523,840	124,978,494
Compensated absences	13,029,384	13,305,594
Amounts payable to Federal government	21,371,431	21,159,764
<b>Total noncurrent liabilities</b>	<b>165,754,974</b>	<b>167,994,721</b>
<b>Total liabilities</b>	<b>221,892,348</b>	<b>222,018,132</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	169,764,355	157,125,838
Restricted - nonexpendable:		
Endowments	7,719,442	7,699,266
Loans	4,483,119	3,968,906
Restricted - expendable:		
Scholarships	2,639,053	1,566,610
Research and other	2,611,387	2,919,823
Loans	110,321	310,399
Construction and renewal of plant facilities	6,201,264	5,930,857
Debt retirement	1,833,456	1,097,855
Unrestricted (see note 13)	66,850,122	58,432,903
<b>Total net assets</b>	<b>262,212,519</b>	<b>239,052,457</b>
<b>Total liabilities and net assets</b>	<b>\$ 484,104,867</b>	<b>\$ 461,070,589</b>

*The accompanying notes are an integral part of these financial statements.*

**Montana State University**  
**a component unit of the State of Montana**  
**UNIVERSITY COMPONENT UNITS-- Combined Statements of Financial Position**  
**As of June 30 or December 31 (see Note 20)**

	2007	2006
		Restated
<b>Assets:</b>		
Cash and cash equivalents	\$ 5,577,577	\$ 5,917,254
Accrued dividends and interest	205,831	140,096
Investments	157,529,895	135,947,049
Amounts due from the institution or other MSU component units	2,005,169	1,205,169
Contributions receivable, net of allowance	5,848,090	5,245,230
Contracts, notes and other receivables	4,226,471	1,014,982
Non-depreciable capital assets	1,088,053	336,501
Depreciable capital assets, net	8,958,844	7,689,146
Other assets	2,421,044	2,659,027
<b>Total assets</b>	<b>\$ 187,860,974</b>	<b>\$ 160,154,454</b>
<b>Liabilities and net assets:</b>		
Liabilities		
Accounts payable	\$ 420,438	\$ 388,780
Accrued expenses and other liabilities	885,645	1,113,568
Compensated absences	282,277	244,371
Notes and bonds payable	2,440,401	2,539,776
Amounts due to the institution or other MSU component units	890,106	709,037
Liabilities to external beneficiaries	3,669,550	3,704,304
Custodial funds	16,168,852	14,514,799
<b>Total liabilities</b>	<b>24,757,269</b>	<b>23,214,635</b>
Unrestricted net assets	16,578,070	13,652,367
Temporarily restricted net assets	65,840,896	46,616,521
Permanently restricted net assets	80,684,739	76,670,931
<b>Total net assets</b>	<b>163,103,705</b>	<b>136,939,819</b>
<b>Total liabilities and net assets</b>	<b>\$ 187,860,974</b>	<b>\$ 160,154,454</b>

*The accompanying notes are an integral part of these financial statements.*

**Montana State University**  
**a component unit of the State of Montana**

**Consolidated Statements of Revenues, Expenses and Changes in Net Assets**

**As of and for Each of the Years Ended June 30**

<b>OPERATING REVENUES</b>	<b>2007</b>	<b>2006</b>
Tuition and fees (net of \$19,678,672 and \$17,899,347 scholarship discount); (\$6,453,070 and \$7,662,392 are pledged for repayment of bonds)	\$ 110,866,530	\$ 106,459,777
Federal appropriations	5,096,812	4,974,217
Federal grants and contracts	97,911,355	98,687,819
State grants and contracts	7,028,544	7,359,754
Non-governmental grants and contracts	9,263,780	8,440,394
Grant and contract facilities and administrative cost recoveries (\$2,534,269 and \$0 are pledged for repayment of bonds)	16,835,562	16,941,909
Educational, public service and outreach revenues (\$1,481,987 and \$1,697,633 are pledged for repayment of bonds)	19,476,487	20,154,580
Auxiliary revenues:		
Housing (net of \$1,575,605 and \$1,573,084 scholarship discount); (\$3,779,761 and \$3,414,193 net revenues are pledged for repayment of bonds)	13,340,590	12,609,256
Food services (net of \$1,669,635 and \$1,633,879 scholarship discount); (\$2,026,854 and \$2,605,521 net revenues are pledged for repayment of bonds)	12,787,681	12,586,831
Other auxiliary sales and services (net of \$614,767 and \$636,353 scholarship discount); (\$1,796,136 and \$1,629,644 are pledged for repayment of bonds)	8,805,140	8,160,301
Interest earned on loans	127,297	101,514
Other operating revenues (\$300,000 in each year is pledged for repayment of bonds)	1,116,027	1,153,097
<b>Total operating revenues</b>	<b>302,655,805</b>	<b>297,629,449</b>
<b>OPERATING EXPENSES</b>		
Compensation and benefits	237,494,073	226,257,396
Operating expenses (see note 14)	120,398,546	120,400,167
Scholarships and fellowships (net of \$23,538,679 and \$21,742,663 scholarship discount)	16,804,447	15,677,964
Depreciation and amortization	21,611,002	20,663,238
<b>Total operating expenses</b>	<b>396,308,068</b>	<b>382,998,765</b>
<b>Operating loss</b>	<b>(93,652,263)</b>	<b>(85,369,316)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	86,806,429	85,643,707
Land grant income (pledged as security for repayment of bonds)	2,219,068	2,313,011
Gifts (expendable)	10,253,107	9,346,358
Investment income (\$2,408,922 and \$2,401,112 are pledged for repayment of bonds)	8,740,024	6,443,147
Interest expense	(5,984,200)	(6,406,318)
<b>Net nonoperating revenues (expenses)</b>	<b>102,034,428</b>	<b>97,339,905</b>
<b>Income before other revenues, expenses, gains and losses</b>	<b>8,382,165</b>	<b>11,970,589</b>
Loss on disposals of capital assets	(479,382)	(721,748)
Additions to permanent endowment	-	400,000
Capital gifts, grants and contributions	15,257,279	5,322,692
<b>Change in net assets</b>	<b>23,160,062</b>	<b>16,971,533</b>
Net assets, beginning of year	239,052,457	222,080,924
<b>Net assets, end of year</b>	<b>\$ 262,212,519</b>	<b>\$ 239,052,457</b>

*The accompanying notes are an integral part of these financial statements.*

**Montana State University*****a component unit of the State of Montana******UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities******As of and for the Year Ended June 30, 2007 or December 31, 2006 (see Note 20)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Contributions	\$ 299,810	\$ 14,521,050	\$ 3,564,717	\$ 18,385,577
Investment, interest and dividend income	2,804,289	15,327,509	514,921	18,646,719
Net realized and unrealized gain (loss) on investments	(12,083)	1,261,266	66,537	1,315,720
Contract support and contributions from University	519,666	-	-	519,666
Special events	1,317,579	39,250	-	1,356,829
Other income	4,938,551	386,428	650	5,325,629
Net assets released from restrictions	12,309,860	(12,303,905)	(5,955)	-
<b>Total revenues</b>	<b>22,177,672</b>	<b>19,231,598</b>	<b>4,140,870</b>	<b>45,550,140</b>
<b>Expenses:</b>				
Program services				
University support	7,769,377	-	-	7,769,377
Academic and institutional	1,863,291	-	-	1,863,291
Scholarships and awards	3,810,593	-	-	3,810,593
<b>Total program services expense</b>	<b>13,443,261</b>	<b>-</b>	<b>-</b>	<b>13,443,261</b>
Operating expenses				
Fundraising efforts	2,652,066	-	-	2,652,066
General and administrative	1,813,713	-	-	1,813,713
Investment management costs	868,102	-	-	868,102
Other miscellaneous	457,939	7,223	127,062	592,224
<b>Total operating expenses</b>	<b>5,791,820</b>	<b>7,223</b>	<b>127,062</b>	<b>5,926,105</b>
<b>Change in net assets before nonoperating items</b>	<b>2,942,591</b>	<b>19,224,375</b>	<b>4,013,808</b>	<b>26,180,774</b>
Non-operating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(16,888)	-	-	(16,888)
<b>Change in net assets</b>	<b>2,925,703</b>	<b>19,224,375</b>	<b>4,013,808</b>	<b>26,163,886</b>
<b>Net assets, beginning of fiscal year</b>	<b>13,652,367</b>	<b>46,616,521</b>	<b>76,670,931</b>	<b>136,939,819</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 16,578,070</b>	<b>\$ 65,840,896</b>	<b>\$ 80,684,739</b>	<b>\$ 163,103,705</b>

*The accompanying notes are an integral part of these financial statements.*

**Montana State University***a component unit of the State of Montana***UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities*****As of and for the Year Ended June 30, 2006 or December 31, 2005 As Restated (see Note 20)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Contributions	\$ 385,529	\$ 11,825,116	\$ 5,259,352	\$ 17,469,997
Investment, interest and dividend income	1,064,327	6,289,121	200,642	7,554,090
Net realized and unrealized gain (loss) on investments	3,359	629,931	6,731	640,021
Contract support and contributions from University	605,850	-	-	605,850
Special events	1,038,717	116,396	-	1,155,113
Other income	4,513,137	849,494	38,454	5,401,085
Net assets released from restrictions	9,137,442	(9,162,005)	24,563	-
Total revenues	16,748,361	10,548,053	5,529,742	32,826,156
<b>Expenses:</b>				
Program services				
University support	6,349,969	-	-	6,349,969
Academic and institutional	1,035,878	-	-	1,035,878
Scholarships and awards	3,516,197	-	-	3,516,197
Total program services expense	10,902,044	-	-	10,902,044
Operating expenses				
Fundraising efforts	2,283,948	-	-	2,283,948
General and administrative	1,755,902	-	-	1,755,902
Investment management costs	77,799	-	-	77,799
Other miscellaneous	1,057,317	-	126,389	1,183,706
Total operating expenses	5,174,966	-	126,389	5,301,355
Change in net assets before nonoperating items	671,351	10,548,053	5,403,353	16,622,757
Nonoperating expenses-				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(25,810)	-	-	(25,810)
Change in net assets	645,541	10,548,053	5,403,353	16,596,947
Net assets, beginning of fiscal year	13,006,826	36,068,468	71,267,578	120,342,872
Net assets, end of fiscal year	\$13,652,367	\$46,616,521	\$ 76,670,931	\$136,939,819

*The accompanying notes are an integral part of these financial statements.*

**Montana State University**  
**a component unit of the State of Montana**  
**Consolidated Statements of Cash Flows**  
**As of and For Each of the Years Ended June 30**

	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Operating revenues:		
Tuition and fees	\$ 110,754,702	\$ 105,674,019
Federal appropriations	3,143,880	4,852,853
Federal grants and contracts	99,308,271	97,398,856
State grants and contracts	6,951,573	6,862,204
Private grants and contracts	10,076,977	8,419,235
Grant and contract facilities and administrative cost recoveries	16,692,834	16,807,172
Educational, public service and outreach revenues	19,334,481	20,298,247
Sales and services of auxiliary enterprises	34,839,743	33,248,987
Interest on loans receivable	338,964	350,269
Other operating receipts	1,116,026	1,153,097
Operating expenses:		
Compensation and benefits	(236,398,864)	(225,097,221)
Operating expenses	(119,208,062)	(118,485,660)
Scholarships and fellowships	(16,804,447)	(15,677,964)
Loans made to students	(5,227,009)	(5,233,542)
Loan payments received	5,080,845	5,339,642
<b>Net cash used in operating activities</b>	<b>(70,000,086)</b>	<b>(64,089,806)</b>
<b>Cash flows from noncapital financing activities:</b>		
Disbursements of funds held in trust for others	(198,533)	(468,354)
State appropriations	88,041,652	84,426,624
Gifts and contributions (expendable)	10,248,281	9,346,359
Land grant income (note 2)	2,219,067	2,313,010
Repayment of long-term advance from primary government	(96,204)	(92,716)
Additions to permanent endowment	-	400,000
<b>Net cash provided by noncapital financing activities</b>	<b>100,214,263</b>	<b>95,924,923</b>
<b>Cash flows from capital financing activities:</b>		
Purchase of capital assets	(44,305,485)	(23,208,796)
Proceeds from sale of capital assets	147,882	135,227
Other capital financing activities	(70,000)	151,201
Proceeds from borrowings	15,108,127	26,150,000
Debt principal repayment	(17,508,278)	(5,113,025)
Interest paid	(5,119,978)	(5,716,720)
Payment of debt issue costs	(248,718)	(252,472)
Advances from primary government	1,818,937	1,170,152
Repayment of advances from primary government	(1,366,671)	(1,183,466)
<b>Net cash used in capital financing activities</b>	<b>(51,544,184)</b>	<b>(7,867,899)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(20,421)	(32,038,015)
Proceeds from sale of investments	27,312,810	8,585,846
Investment income	8,574,280	6,658,217
<b>Net cash provided by (used in) investing activities</b>	<b>35,866,669</b>	<b>(16,793,952)</b>
<b>Net change in cash and cash equivalents</b>	<b>14,536,662</b>	<b>7,173,266</b>
<b>Cash and equivalents at beginning of year</b>	<b>92,290,351</b>	<b>85,117,085</b>
<b>Cash and equivalents at end of year</b>	<b>\$ 106,827,013</b>	<b>\$ 92,290,351</b>

*The accompanying notes are an integral part of these financial statements.*



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**Reconciliation of Operating Loss to Net Cash Used in Operations**

	<b>2007</b>	<b>2006</b>
<b>Operating loss</b>	\$ (93,652,263)	\$ (85,369,316)
Non-cash income and expense:		
Depreciation and amortization	21,611,002	20,663,238
Provision for uncollectible accounts	621,127	536,314
Changes in operating assets and liabilities:		
Accounts and grants receivable	(812,206)	(2,168,400)
Loans receivable	(146,163)	106,100
Inventories	(46,350)	70,473
Prepaid expenses	496,489	515,285
Accounts payable and other accrued liabilities	884,032	1,263,675
Deferred revenue	233,667	(832,079)
Compensated absences	598,912	875,192
Due to federal government	211,667	249,712
<b>Net cash used in operations</b>	<b>\$ (70,000,086)</b>	<b>\$ (64,089,806)</b>

**Schedule of noncash financing and investing activities**

	<b>2007</b>	<b>2006</b>
Capital assets contributed to the University	\$ 13,595,303	\$ 5,731,677
Capital assets acquired through issuance of capital lease obligations	\$ 36,931	\$ 54,610
Bond discount amortized to interest expense	\$ 647,102	\$ 600,074
Bond issue costs amortized to interest expense	\$ 69,689	\$ 54,696
Change in fair value of investments	\$ 53,124	\$ (651,208)

**Reconciliation of cash and cash equivalents as shown on the Statements of Cash Flows to Cash as Shown in the Statements of Net Assets**

	<b>2007</b>	<b>2006</b>
Cash and cash equivalents classified as current assets	\$ 105,438,245	\$ 92,218,809
Cash and cash equivalents classified as non-current assets	1,388,768	71,542
Total cash and cash equivalents as reported on the Statements of Cash Flows	<b>\$ 106,827,013</b>	<b>\$ 92,290,351</b>

*The accompanying notes are an integral part of these financial statements.*

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**NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION**

The accompanying financial statements include all activities of the four Montana State University campuses, the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School, collectively referred to as the “University.” The four campuses of the University are Montana State University–Bozeman, Montana State University–Billings, Montana State University–Northern (located in Havre) and Montana State University College of Technology–Great Falls. Significant interagency transactions have been eliminated in consolidation.

The University is a modern land grant university that serves the state, national and international communities by providing its students with academic instruction, conducting a high level of research activity, and performing other activities that advance fundamental knowledge, and by disseminating knowledge to the people of Montana.

A financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements for the University are included as a component unit of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*. The University was required to adopt the statement as of and for the year ended June 30, 2004. The statement requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity. The University has established a threshold minimum of 1% - 2% percent of consolidated net assets or 1% - 2% percent of consolidated revenues as an initial requirement for inclusion of an organization as a component unit in its financial statements. Other entities may be included, though, if the University determines that to exclude the entity would be misleading. All component units and other related organizations will be tested and evaluated on an annual basis for inclusion under GASB Statement No. 39. For further discussion of component units, see Note 20.

**BASIS OF PRESENTATION**

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November, 1999 by GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. The State of Montana implemented GASB Statement No. 34 as of and for the year ended June 30, 2002. As a component unit of the State of Montana, the University was also required to adopt GASB Statements No. 34 and No. 35. The latter statement was adopted as amended by GASB Statements No. 37 and No. 38.

The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University’s financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues

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are recognized when earned, and expenses are recorded when an obligation has been incurred. The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The State of Montana has elected not to apply FASB pronouncements issued after the applicable date.

**SIGNIFICANT ACCOUNTING POLICIES**

**Cash equivalents** – For purposes of the statement of cash flows, the University considers its unrestricted, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in the Short Term Investment Pool with the Montana Board of Investments are considered cash equivalents, as are certain investments held by trustees.

**Investments** – The University accounts for its investments at fair value in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

**Accounts and grants receivable** – Accounts receivable consist of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are reported net of estimated uncollectible amounts.

**Allowances for uncollectible accounts** – The University estimates the value of its receivables that will ultimately prove uncollectible, and has reported a provision for such as an expense in the accompanying financial statements.

**Inventories** – Inventories include consumable supplies, livestock, and food items and items held for resale or recharge within the University. Inventories are valued using First In First Out (FIFO) or specific identification methods.

**Non-current cash and investments** – Cash and investments that are externally restricted as to use are classified as non-current assets in the accompanying statement of net assets. Such assets include endowment fund cash and investments.

**Capital assets** – Capital assets are stated at cost or fair value at date of purchase or donation. Livestock held for educational purposes is recorded at estimated fair value. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance and minor renovations are charged to operating expense in the year in which the expense is incurred.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets, ranging from 3 years for certain software to 75 years for certain infrastructure assets. The University has elected to capitalize museum, fine art and special library collections, but does not record depreciation on those items.

**Deferred revenues** – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to events occurring in the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Compensated absences** – Eligible University employees earn a minimum of 8 hours sick and 10 hours annual leave for each month worked. Eligible employees may accumulate annual leave up to twice their annual accrual, while sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of accumulated annual leave, if not used during employment, is paid upon termination.

**Net assets** – Resources are classified in one of the following four net asset categories:

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**Invested in capital assets, net of related debt** – this represents the University’s total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

**Restricted net assets, nonexpendable** – this represents net assets subject to externally imposed stipulations that the University maintain those assets permanently. Such assets include the University’s permanent endowment funds.

**Restricted net assets, expendable** – this represents net assets whose use by the University is subject to externally imposed stipulations as to either the use or the period of availability of the assets.

**Unrestricted net assets** – this represents net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in Note 13.

**Classification of revenues** – The University has classified its revenues as either operating or non-operating according to the following criteria:

**Operating revenues** – include activities that have the characteristics of exchange transactions, including (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

**Non-operating revenues** – include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

**Use of restricted revenues** – When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis. Restricted funds remain classified as restricted until they are expended.

**Income taxes** – The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. Because tax liabilities are not considered to be material, no provision for income tax expense is reported in the accompanying financial statements.

**Scholarship discounts and allowances** – Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are computed as the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students’ behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the University’s financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

**Accounting policies not yet implemented** – Certain accounting policies adopted by the Governmental Accounting Standards Board (“GASB”) have not yet become effective. GASB Statements Number 45 and 50 address the accounting and disclosure for post-employment benefits other than pensions. The University is in the process of determining whether a liability will result from adoption of the new standard, and what disclosures will be necessary with respect to retiree participation in the University’s self-insured health plan. GASB Statement Number 48 will

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require additional disclosures with respect to pledged revenues, but is not expected to affect the University's accounting for receivables, as most of its provisions do not apply to transactions currently in place or contemplated by the University. GASB Statement Number 49 addresses recognition and disclosure of pollution remediation obligations. The University does not believe adoption will have a material effect on its results of operations, cash flows, or net assets. GASB Statement 51 deals with the accounting and disclosure of intangible assets. The University is in the process of determining whether adoption will have a material effect on its results of operations and net assets.

**Reclassifications** – Certain prior year amounts have been reclassified to conform to the current year presentation. A \$175,000 reclassification was made between expendable and non-expendable net assets. In addition, \$1,321,172 of scholarship expense was added due to a change in the University's scholarship discounting entry calculation. The amount was offset by an equal addition to the related tuition and fee revenue. Neither of these reclassifications affected total net assets as previously presented.

**NOTE 2 –CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS**

**Cash deposits** –The University must comply with State statutes, which generally require that cash and investments remain on deposit with the State treasury, and as such are subject to the State's investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings through placing certain funds with recognized University foundations. Deposits with the State treasury and other financial institutions totaled \$40,010,246 at June 30, 2007 and \$37,947,041 at June 30, 2006.

**Cash equivalents** – These amounts consist of cash held by trustees as well as in a Short Term Investment Pool (STIP) with the Montana Board of Investments. Amounts held in STIP may be withdrawn by the University on demand, and as such are classified as cash equivalents, even though a portion of the pool's underlying investments may be considered noncurrent.

STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable-rate (floating-rate) instruments. These securities are purchased to provide shareholders with a diversified portfolio earning a competitive total rate of return.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. Commercial paper issued at a discount, direct or by brokers, is backed by bank credit lines. Repurchase agreements (REPOs) represent an agreement between a seller and a buyer, usually of US government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities float with LIBOR (London Interbank Offered Rate).

STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Funds held in STIP are reported at fair value as of June 30, based on market prices supplied to the Montana Board of Investments by its custodial bank.

**Investments** – These amounts consist of U.S. Government Securities, amounts invested in the Montana Board of Investments Trust Fund Bond Pool (TFBP), funds held in common investment pools administered by the MSU-Bozeman and MSU- Northern Foundations, as well as other funds held with trustees.

TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The TFBP portfolio includes securities classified as corporate, foreign government bonds, municipals, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S.

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government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

The TFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as U.S. government indirect-backed securities in the investment risk and portfolio disclosures.

TFBP fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The TFBP variable-rate securities float with LIBOR (London Interbank Offered Rate). Investments are presented in the TFBP Statement of Net Asset Value at fair value. Fair values for securities are determined primarily by reference to market prices supplied to the Board of Investments by its custodial bank, State Street Bank.

The MSU- Bozeman and MSU- Northern Foundation Pools consist of certain endowment and other funds held in common investment pools. Such pools are administered by the separate Foundations, managed in accordance with investment policies in effect at each, and are not subject to regulatory oversight.

**Securities lending transactions** – During fiscal years 2007 and 2006, State Street Bank loaned, on behalf of the Montana Board of Investments, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2007 and 2006 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2007 and 2006. Moreover, there were no losses during fiscal years 2007 and 2006 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2007 and 2006, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust, which has a weighted average maturity of 66 and 56 days, respectively as of June 30, 2007 and 2006. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the University had no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts receivable from the borrowers.

The University maintained security lending cash collateral of \$638,593 at June 30, 2007, and \$1,537,765 at June 30, 2006.

**Investment risks** – The University's investments are concentrated primarily with the State of Montana; therefore, discussion of the risks of the applicable State investment products is included below. Detailed asset maturity and other information demonstrating risk associated with the State of Montana Board of Investments STIP and TFBP is contained in the State of Montana Board of Investments financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126. Investment risks are described in the following paragraphs.

**Credit Risk** – Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, all STIP securities and TFBP fixed income instruments have credit risk as measured by major credit rating services. The Board of Investments' policy requires that STIP securities have the highest investment grade rating in the short term category by at least one Nationally Recognized Statistical Rating Organizations (NRSRO). The six NRSROs include Standard and Poor, Moody, Duff and Phelps, Fitch, IBCA and Thompson's Bank Watch. The Board of Investment's policy requires TFBP fixed

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income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services.

U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

**Custodial Credit Risk** – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2007 and 2006, all STIP and TFBP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. According to the STIP Investment Policy, "repurchase agreements require electronic delivery of U.S. Government Treasury collateral, priced at 102 percent market value, to the designated State of Montana Federal Reserve Bank account." The TFBP's State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. The STIP Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for "minimum three (3%) percent or \$15 million, whichever is higher, to be invested in Repurchase Agreements." As of June 30, 2007 there were no single issuer investments that exceeded 5% of the STIP portfolio. According to the TFBP Investment Policy, "with the exception of U.S. government indirect-backed (agency) securities, additional TFBP portfolio purchases will not be made if the credit risk exceeds 2 percent of the portfolio at the time of purchase." As of June 30, 2007 and 2006, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 10.10% and 7.75%, respectively.

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a-7-like pool. The TFBP investment policy does not formally address interest rate risk.

The State of Montana has selected the effective duration method to disclose interest rate risk. The University's investments are categorized below to disclose interest rate and credit risk as of June 30, 2007. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a security investment type is unrated, the quality type is indicated by NR. Although STIP and TFBP investments have been rated by investment security type, neither has been rated by an NRSRO.

Cash equivalents and investments are categorized as follows at June 30, 2007:

Security Type	Fair Value		Moody's Credit Quality Rating at June 30, 2007	Effective Duration at June 30, 2007
	2007	2006		
State of Montana Short Term Investment Pool	\$ 62,830,865	\$ 51,908,470	NR	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University's name)	1,711,658	1,465,841	P-1	N/A
State of Montana Trust Fund Bond Pool*	14,422,154	14,358,059	NR	N/A*
Foundation Pooled Cash and Investments*	11,695,488	10,743,739	NR	N/A*
U.S. Treasury Notes	491,716	739,617	NR	2.94
U. S. Bank Certificates of Deposit (collateralized by U. S. Bank pool, not in the University's name)	1,000,000	1,000,000	Aa1	.46
U. S. Bank Guaranteed Investment Contracts (non- collateralized)	14,230,590	41,155,776	Aa1	.74
Total Cash Equivalents & Investments	<u>\$ 106,382,471</u>	<u>\$ 121,371,502</u>		
Securities Lending Collateral Investment Pool	<u>\$ 638,593</u>	<u>\$ 1,537,765</u>	NR	N/A

\* TFBP and Foundation investments are not intended for withdrawal.



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**Land grant earnings** – The University benefits from two separate land grants which total 240,000 acres. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862. The second, under the Enabling Act of 1889, granted an additional 50,000 acres for agricultural institutions and 100,000 acres for state normal schools.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The State of Montana, Board of Land Commissioners, administers both grants and holds all endowed assets. The University's land grant assets are not reflected in these financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report.

Investment income from the perpetual endowment is distributed periodically to the University by the State of Montana, Board of Land Commissioners, and is reported as revenue in the accompanying financial statements. The University has currently pledged such income to the retirement of revenue bond indebtedness; after satisfying the liens of the indenture, the University may expend the funds for any lawful purpose.

In addition to distributed endowment income, the University also receives revenue generated from trust land timber sales. The University has the flexibility to designate timber sales revenues as either distributable or for reinvestment, should it choose to expend the funds for certain specified purposes.

**NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE**

Accounts receivable consisted of the following as of June 30:

	<b>2007</b>	<b>2006</b>
Accounts receivable	\$ 6,314,364	\$ 6,189,354
Other receivables, including private grants and contracts	3,007,586	3,403,887
Gross accounts and grants receivable	9,321,950	9,593,241
Less allowance for uncollectible accounts	(2,319,005)	(2,113,589)
Net accounts and grants receivable	<u>\$ 7,002,945</u>	<u>\$ 7,479,652</u>

**NOTE 4 – INVENTORIES**

Inventories consisted of the following as of June 30:

	<b>2007</b>	<b>2006</b>
Bookstore	\$ 1,056,183	\$ 1,065,690
Food services	311,489	295,283
Facilities services	242,268	229,681
Livestock	595,770	555,688
Other	569,196	582,213
Total inventories	<u>\$ 2,774,906</u>	<u>\$ 2,728,555</u>

**NOTE 5 – PREPAID EXPENSES**

Prepaid expenses consisted of the following as of June 30:

	<b>2007</b>	<b>2006</b>
Library subscriptions	\$ 887,000	\$ 727,000
Other	754,810	1,260,100
Total prepaid expenses	<u>\$ 1,641,810</u>	<u>\$ 1,987,100</u>



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**NOTE 6 – LOANS RECEIVABLE**

Total loans receivable balances at June 30, 2007 and 2006 were \$21,842,361 and \$21,696,197, respectively. Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan balances. Included in non-current liabilities as of June 30, 2007 and 2006 are \$21,371,431 and \$21,159,764 that would be refundable to the Federal Government, should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portions of interest income and loan program expenses are shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the accompanying financial statements.

**NOTE 7 – CAPITAL ASSETS**

Following are the changes in capital assets for the years ended June 30, 2007 and 2006:

	<b>Year Ended June 30, 2007</b>				<b>Balance June 30, 2007</b>
	<b>Balance July 1, 2006</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	
Capital assets not being depreciated:					
Land	\$ 6,508,370	\$ 115,165	\$ -	\$ -	\$ 6,623,535
Museum and fine art	4,365,653	-	-	-	4,365,653
Library special collections	3,460,950	-	-	-	3,460,950
Livestock for educational purposes	2,999,661	11,512	-	-	3,011,173
Construction work-in-progress	15,996,790	47,489,535	(413,177)	(3,924,207)	59,148,941
<b>Total capital assets not             being depreciated</b>	<b>33,331,424</b>	<b>47,616,212</b>	<b>(413,177)</b>	<b>(3,924,207)</b>	<b>76,610,252</b>
Other capital assets:					
Furniture and equipment	96,214,238	8,481,859	(2,612,790)	291,000	102,374,307
Library materials	59,331,307	1,622,843	(884,982)	-	60,069,168
Buildings	174,427,448	185,251	-	67,433	174,680,132
Building improvements	132,137,785	401,059	-	3,565,774	136,104,618
Land improvements	13,606,365	-	-	-	13,606,365
Infrastructure	32,128,077	-	-	-	32,128,077
Total other capital assets	507,845,220	10,691,012	(3,497,772)	3,924,207	518,962,667
Accumulated depreciation	(292,438,491)	(21,260,270)	3,283,686	-	(310,415,075)
<b>Other capital assets, net</b>	<b>215,406,729</b>	<b>(10,569,258)</b>	<b>(214,086)</b>	<b>3,924,207</b>	<b>208,547,592</b>
<b>Intangible assets, net</b>	<b>492,553</b>	<b>941,738</b>	<b>-</b>	<b>-</b>	<b>1,434,291</b>
<b>Capital Assets, net</b>	<b>\$ 249,230,706</b>	<b>\$ 37,988,692</b>	<b>\$ (627,263)</b>	<b>-</b>	<b>\$ 286,592,135</b>

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	<b>Year Ended June 30, 2006</b>				
	Balance July 1, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 4,240,069	\$ 2,268,301	\$ -	\$ -	\$ 6,508,370
Museum and fine art	4,319,153	46,500	-	-	4,365,653
Library special collections	3,460,950	-	-	-	3,460,950
Livestock for educational purposes	2,963,396	36,265	-	-	2,999,661
Construction work-in-progress	12,033,105	13,663,656	(57,359)	(9,642,612)	15,996,790
<b>Total capital assets not being depreciated</b>	<b>27,016,673</b>	<b>16,014,722</b>	<b>(57,359)</b>	<b>(9,642,612)</b>	<b>33,331,424</b>
Other capital assets:					
Furniture and equipment	91,772,607	8,111,418	(3,669,787)	-	96,214,238
Library materials	57,412,116	2,099,952	(180,761)	-	59,331,307
Buildings	168,420,836	1,798,610	-	4,208,002	174,427,448
Building improvements	126,506,666	516,294	-	5,114,825	132,137,785
Land improvements	13,286,580	-	-	319,785	13,606,365
Infrastructure	32,128,077	-	-	-	32,128,077
Total other capital assets	489,526,882	12,526,274	(3,850,548)	9,642,612	507,845,220
Accumulated depreciation	(275,159,931)	(20,329,493)	3,050,933	-	(292,438,491)
<b>Other capital assets, net</b>	<b>214,366,951</b>	<b>(7,803,219)</b>	<b>(799,615)</b>	<b>9,642,612</b>	<b>215,406,729</b>
<b>Intangible assets, net</b>	<b>781,195</b>	<b>45,102</b>	<b>(333,744)</b>	<b>-</b>	<b>492,553</b>
<b>Capital Assets, net</b>	<b>\$ 242,164,819</b>	<b>\$ 8,256,605</b>	<b>\$ (1,190,718)</b>	<b>\$ -</b>	<b>\$ 249,230,706</b>

Historical records are not available for certain of the University's assets. As such, some values have been estimated based on insurance values, industry-accepted valuation techniques, or estimates made by University personnel knowledgeable as to the assets' values. Livestock held for educational purposes consist primarily of cattle herds. Breeding cattle are routinely replaced in the herds by their offspring; additions and deductions from the asset cost are not reported for reproducing cattle replaced in this manner.

**NOTE 8 – DEFERRED REVENUES**

Deferred revenues consisted of the following as of June 30:

	<b>2007</b>	<b>2006</b>
Grant and contract funds received in advance	\$ 4,092,601	\$ 3,822,003
Summer session payments received in advance	3,529,977	3,637,491
Other deferred revenues	402,309	331,728
Total	\$ 8,024,887	\$ 7,791,222

**NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consisted of the following as of June 30:

	<b>2007</b>	<b>2006</b>
Compensation, benefits and related liabilities	\$ 16,763,516	\$ 16,404,156
Accrued interest expense	399,472	529,559
Accounts payable and other accrued liabilities	7,093,986	6,839,305
Total	\$ 24,256,974	\$ 23,773,020

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**NOTE 10 – NON-CURRENT LIABILITIES**

Following are the changes in non-current liabilities for the years ended June 30, 2007 and 2006:

	<b>Year Ended June 30, 2007</b>				
	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
Bonds and notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 127,769,684	\$ 13,407,525	\$ (16,687,897)	\$ 124,489,312	\$ 4,720,000
Notes and other debt	1,468,702	1,700,603	(172,405)	2,996,900	273,588
Capital lease obligations	60,257	36,930	(38,798)	58,389	27,173
Total bonds, notes and capital lease obligations	\$ 129,298,643	\$ 15,145,058	\$ (16,899,100)	\$ 127,544,601	\$ 5,020,761
Compensated absence liability	\$ 25,465,768	\$ 12,782,401	\$ (12,183,492)	\$ 26,064,677	\$ 13,035,293
Advances from primary government	\$ 9,810,850	\$ 1,818,937	\$ (1,413,600)	\$ 10,216,187	\$ 1,385,868
Amounts payable to Federal government	\$ 21,159,764	\$ 214,107	\$ (2,440)	\$ 21,371,431	\$ -

Amounts not due within one year are reflected in the non-current liabilities section of the accompanying Statement of Net Assets, and as of June 30, 2007, include \$122,523,840 in bonds, notes and capital lease obligations, \$8,830,319 advances from primary government and \$13,029,384 in compensated absence liabilities.

	<b>Year Ended June 30, 2006</b>				
	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Bonds and notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 106,259,612	\$ 25,750,000	\$ (4,239,928)	\$ 127,769,684	\$ 4,120,000
Notes and other debt	1,291,399	400,000	(222,697)	1,468,702	172,405
Capital lease obligations	40,973	54,610	(35,326)	60,257	27,744
Total bonds, notes and capital lease obligations	\$ 107,591,984	\$ 26,204,610	\$ (4,497,951)	\$ 129,298,643	\$ 4,320,149
Compensated absence liability	\$ 24,590,572	\$ 12,698,508	\$ (11,823,312)	\$ 25,465,768	\$ 12,160,174
Advances from primary government	\$ 9,869,954	\$ 1,170,152	\$ (1,229,256)	\$ 9,810,850	\$ 1,259,981
Amounts payable to Federal government	\$ 20,910,052	\$ 249,712	\$ -	\$ 21,159,764	\$ -

Amounts not due within one year are reflected in the non-current liabilities section of the accompanying Statement of Net Assets, and as of June 30, 2006, include \$124,978,494 in bonds, notes and capital lease obligations, \$8,550,869 advances from primary government and \$13,305,594 in compensated absence liabilities.

**Interest rate exchange agreements related to long-term debt –**

**Interest rate swap** – In March 2005, the University entered into a forward-starting interest rate swap agreement with Deutsche Bank AG (“DBAG”). The notional amount of the swap as of June 30, 2007, is \$25,750,000, and equals the University’s Series J 2005 Bond principal outstanding. The instrument converts the Series J 2005 bonds, issued July 21, 2005, from a variable rate to an intended synthetic fixed rate of 3.95%. The swap was executed approximately 4 months in advance of the Series J 2005 bond issuance, to allow the University to lock in the then current market interest rates, and its effective date was concurrent with the bond issue date.

DBAG has the option to unwind the swap in 2016 (the “swaption”), exposing the University to rollover risk for the Series J Bonds’ remaining term. If the swaption is not exercised in 2016, the swap terminates in November, 2035, at

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which time the Series J 2005 Bonds mature. The swaption date of 2016 coincides with the date at which the University's only other variable rate debt, the Series G 2003 issuance, matures. Such timing is intended to limit the University's exposure to interest rate risk by allowing the Series J debt to convert to a variable rate only after the Series G variable rate debt matures.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. At June 30, 2007 and 2006, the fair value of the swap was (\$127,014) and (\$45,500). Such value was provided to the University by an independent valuation firm, and was calculated using mid-market levels as of the close of business on June 30 (or the last business day prior to June 30, if June 30 was not a business day) of each year.

The University is subject to basis risk, because the interest rate which the University pays to bondholders is based on the Municipal Auction Rate Securities ("MARS") rate, while the interest rate the University receives from DBAG is based on the SIFMA index. The difference between funds received from DBAG at SIFMA and funds paid to the bondholders at MARS can result in a difference between the intended synthetic interest rate and the effective synthetic interest rate. As of June 30, 2007, the SIFMA rate received from DBAG was 3.76% and the MARS rate paid to bondholders was 3.70%, resulting in a positive basis difference of 0.06%.

Credit risk is dependent upon the credit quality rating of DBAG. At June 30, 2007 and 2006, the University was not subject to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value become positive, the University would be exposed to credit risk in the amount of the fair value of the swap. To mitigate credit risk, the agreement requires DBAG to maintain at least double-A category ratings from both Moody's and S&P, and must post collateral with a third party in the event of a rating downgrade.

The University or DBAG may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bonds would no longer carry a synthetic rate. In addition, the University may be required to pay an amount equal to the swap's fair value, if negative.

Swap interest as of June 30, 2007, netted 0.19%, which is the difference between the fixed rate of 3.95% paid to DBAG and 3.76% received from DBAG at the SIFMA rate. Repayment schedules using interest rates in effect as of June 30, 2007, are included in Note 11, below.

**Constant maturity swap** – In July 2006, the University entered into a forward-starting basis swap agreement ("Constant maturity swap") with Morgan Stanley Capital Services, Inc. ("Morgan Stanley"). The agreement takes effect November 15, 2007, at a notional amount of \$25,250,000, decreasing to \$1,550,000 by November 15, 2034, at which time the instrument expires. The instrument was executed to take advantage of the flat interest rate yield curve in effect at the transaction date, and each month beginning November 15, 2007, requires a net settlement payment. As of each settlement date, the University will pay that date's current SIFMA rate on the then-outstanding notional amount, and will receive 86.8% of that date's 10-year SIFMA rate on the then-outstanding notional amount.

At June 30, 2007, the fair value of the constant maturity swap was (\$340,218). Such value was provided to the University by an independent valuation firm, and was calculated using mid-market levels as of the close of business on June 30 (or the last business day prior to June 30, if June 30 was not a business day) of each year.

The University is subject to basis risk, because the interest rate which the University pays to Morgan Stanley does not equal the rate received. Had the instrument taken effect as of June 30, 2007, the University would be in a net payment position rather than in a net receiving position.

Credit risk is dependent upon the credit quality rating of Morgan Stanley. At June 30, 2007, the University was not subject to credit risk, because the constant maturity swap had a negative fair value. However, should interest rates change and the fair value become positive, the University would be exposed to credit risk in the amount of the fair value of the constant maturity swap. To mitigate credit risk, the agreement requires Morgan Stanley to maintain at least "BBB-" category rating from S&P and "Baa3" from Moody's. The University or Morgan Stanley may terminate the constant maturity swap if the other party fails to perform under the terms of the contract. In addition, the University may be required to pay an amount equal to the swap's fair value, if negative.

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**NOTE 11 – BONDS, NOTES AND ADVANCES PAYABLE**

Revenue bonds payable at June 30, 2007 were as follows:

**Series 1993 A**

Payable during the year ending June 30,	Interest Rate*	Principal	Interest	Total
2008	5.00%	\$ 1,208,611	\$ 1,206,389	\$ 2,415,000
2009	5.05%	1,314,579	1,465,421	2,780,000
2010	5.10%	1,240,880	1,539,119	2,779,999
2011	5.15%	1,170,185	1,609,815	2,780,000
2012	5.20%	1,102,465	1,677,536	2,780,001
Total cash requirements		6,036,720	\$ 7,498,280	\$ 13,535,000
Accreted discount on capital appreciation bonds		5,964,731		
Accreted balance		\$ 12,001,451		

\* Effective rate calculated on deep discount bonds

**Series 1996 B**

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2008	5.75%	\$ 235,000	\$ 6,756	\$ 241,756
Total cash requirements		\$ 235,000	\$ 6,756	\$ 241,756

**Series 1998 E**

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2008	4.35%	\$ 305,000	\$ 20,494	\$ 325,494
2009	4.40%	315,000	6,930	321,930
Total cash requirements		\$ 620,000	\$ 27,424	\$ 647,424

**Series 2003G**

Payable during the year ending June 30,	Interest Rate in effect June 30, 2007*	Principal	Interest	Total
2008	3.65%	\$ 240,000	\$ 614,863	\$ 854,863
2009	3.65%	305,000	550,068	855,068
2010	3.65%	320,000	540,582	860,582
2011	3.65%	275,000	584,364	859,364
2012	3.65%	335,000	521,369	856,369
2013-2017	3.65%	16,355,000	1,342,837	17,697,837
Total cash requirements		17,830,000	\$ 4,154,083	\$ 21,984,083
Deferred loss on refunding		(490,127)		
Total		\$ 17,339,873		

\*Interest rate on the Series G debt varies, dependent on the results of auction.

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**Series 2004H**

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2008	2.10%	\$ 435,000	\$ 1,078,520	\$ 1,513,520
2009	4.00%	450,000	1,064,953	1,514,953
2010	4.00%	470,000	1,046,553	1,516,553
2011	3.00%	485,000	1,029,878	1,514,878
2012	5.50%	505,000	1,008,715	1,513,715
2013-2017	3.60-5.50%	2,975,000	4,604,778	7,579,778
2018-2022	4.00-5.00%	3,720,000	3,860,238	7,580,238
2023-2027	4.25-4.50%	4,610,000	2,971,835	7,581,835
2028-2032	4.63-5.00%	5,790,000	1,789,016	7,579,016
2033-2035	5.00%	4,225,000	323,875	4,548,875
Total cash requirements		23,665,000	\$ 18,778,361	\$ 42,443,361
Unamortized premium/discount (net)		481,685		
Total		\$ 24,146,685		

**Series 2004I**

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2008	2.50%	\$ 685,000	\$ 1,418,806	\$ 2,103,806
2009	2.50%	610,000	1,402,619	2,012,619
2010	3.00%	615,000	1,385,769	2,000,769
2011	3.00%	640,000	1,366,944	2,006,944
2012	3.25%	650,000	1,346,781	1,996,781
2013-2017	3.70-5.25%	3,770,000	6,257,416	10,027,416
2018-2022	3.75-5.00%	21,105,000	3,375,419	24,480,419
2023-2026	5.00%	3,080,000	279,006	3,359,006
Total cash requirements		31,155,000	\$ 16,832,760	\$ 47,987,760
Deferred loss on refunding		(1,286,818)		
Unamortized premium/discount (net)		1,352,575		
Total		\$ 31,220,757		

**Series 2005J**

Payable during the year ending June 30,	Interest Rate in Effect June 30, 2007*	Principal	Auction Rate Interest*	Net Swap Interest	Total
2008	3.70%	\$ 325,000	\$ 940,312	\$ 49,631	\$ 1,314,943
2009	3.70%	275,000	929,204	49,044	1,253,250
2010	3.70%	450,000	915,818	48,338	1,414,156
2011	3.70%	375,000	900,545	47,532	1,323,076
2012	3.70%	550,000	883,459	46,630	1,480,089
2013-2017	3.70%	3,125,000	4,090,363	215,894	7,431,256
2018-2022	3.70%	3,900,000	3,442,518	181,700	7,524,218
2023-2027	3.70%	4,775,000	2,641,139	139,402	7,555,541
2028-2032	3.70%	6,000,000	1,645,562	86,855	7,732,417
2033-2036	3.70%	5,800,000	441,182	23,286	6,264,468
Total cash requirements		\$ 25,575,000	\$ 16,830,102	\$ 888,312	\$ 43,293,414

\*Interest rate on the Series J debt varies, dependent on the results of auction.

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**Series 2006K**

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2008	0.00%	\$ 80,000	\$ 572,097	\$ 652,097
2009	4.00%	125,000	567,997	692,997
2010	4.00%	530,000	554,897	1,084,897
2011	3.75%	550,000	533,985	1,083,985
2012	4.00%	570,000	512,272	1,082,272
2013-2017	4.00-4.05%	3,235,000	2,192,087	5,427,087
2018-2022	4.13-4.38%	7,770,000	1,055,096	8,825,096
2023-2026	4.50%	770,000	71,100	841,100
Total cash requirements		13,630,000	\$ 6,059,531	\$ 19,689,531
Deferred loss on refunding		(226,338)		
Unamortized premium/discount (net)		(53,116)		
Total		\$ 13,350,546		

**Total, all series**

Payable during the year ending June 30,	Principal	Interest	Net Swap Interest	Total
2008	\$ 3,513,611	\$ 5,858,237	\$ 49,631	\$ 9,421,479
2009	3,394,579	5,987,192	49,044	9,430,815
2010	3,625,880	5,982,738	48,338	9,656,956
2011	3,495,185	6,025,529	47,532	9,568,246
2012	3,712,465	5,950,133	46,630	9,709,228
2013-2017	29,460,000	18,487,482	215,894	48,163,376
2018-2022	36,495,000	11,733,270	181,700	48,409,970
2023-2027	13,235,000	5,963,080	139,402	19,337,482
2028-2032	11,790,000	3,434,578	86,855	15,311,433
2033-2036	10,025,000	765,057	23,286	10,813,343
Total cash requirements	118,746,720	\$ 70,187,296	\$ 888,312	\$ 189,822,328
Deferred loss on refunding	(2,003,283)			
Unamortized premium/discount (net)	1,781,144			
Accreted discount on capital appreciation bonds	5,964,731			
Bonds payable, net	\$ 124,489,312			

**Debt refunded, issued, and escrowed —**

**Series A 1993 Bonds, November 9, 1993** — An original issue of \$24,911,720 dated November 9, 1993, consisting of \$3,055,000 of fully registered Current Interest Serial Bonds, plus \$6,036,720 (discounted value) of fully registered Capital Appreciation Bonds, and the remainder of fully registered Current Interest Term Bonds. A total of \$4.3 million was used to partially refund certain eligible portions of the Series B 1985 and Series A 1986 Indentures. The remainder of the proceeds was for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University. The Serial Bonds were refunded by the Series G 2003 bonds, leaving the Capital Appreciation Bonds outstanding.

**Series B 1996, October 1, 1996** — On October 1, 1996, the University issued Series B 1996 Facilities Refunding Revenue Bonds in the amount of \$18,995,000. Proceeds from the sale of the bonds were used to: 1) advance refund \$18,440,000 of outstanding Series A 1986 bonds; 2) pay the bond insurance premium; and 3) pay certain costs associated with the issuance of the bonds.

**Series E 1998, June 1, 1998** — On June 1, 1998, the University issued Series E 1998 Facilities Improvement Revenue Bonds in the amount of \$8,255,000. Proceeds from the sale of the bonds were used to: 1) finance the

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construction, improvement, repair, replacement, expansion, renovation, furnishing, and equipping of the football stadium at the Bozeman campus; 2) pay the premiums for the municipal bond insurance policy; and 3) pay certain costs associated with the issuance of the Series E 1998 bonds. Bonds maturing on or before November 15, 2008, are not subject to optional redemption prior to maturity. The MBIA unconditionally and irrevocably guarantees all bonds. With the issuance of Series K debt in July 2006, a significant portion of the bonds were refunded.

**Series G 2003, October 15, 2003** - On October 15, 2003, the University issued \$18,760,000 in Municipal Auction Rate Securities as Series 2003 G Revenue Bonds. Of this total, \$16,745,000 was used for a current refunding of the Series 1993-A bonds and \$2,015,000 was used for an advance refunding of the Series 1994 C bonds. The bonds are ten year variable rate bonds, priced on a 35-day rate period. They are unconditionally and irrevocably guaranteed by XL Capital Assurance. Payments are scheduled each May 15 and November 15 through November, 2016. Bond proceeds, along with monies from the University, were sufficient to legally defease a portion of the Series 1993 A bonds, and the Series 1994 C bonds. The refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,451,453. The refunded debt is considered defeased and is not reported in the University's financial statements.

**Series H 2004, October 14, 2004** - In October 2004, the University issued \$23,665,000 in Series H 2004 Facilities Improvement Revenue Bonds to fund the construction of a new Chemistry/Biochemistry Research Laboratory Facility on the Bozeman campus. Payments are scheduled each May and November through November, 2034, including mandatory sinking fund redemptions for the November, 2018 maturity in November, 2017; for the November, 2029 maturity in November, 2027, 2028 and 2029; and for the November, 2034 maturity in November, 2030, 2031, 2032, 2033 and 2034. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described below. Payment is guaranteed by Ambac Assurance Corporation.

**Series I 2004, November 23, 2004** - In November, 2004, the University issued \$31,340,000 of Series I 2004 Facilities Revenue Refunding Bonds. Bond proceeds, together with funds from the University, were sufficient to refund a significant portion of the Series 1996D bonds and pay for costs of bond issuance. They are unconditionally and irrevocably guaranteed by Ambac Assurance Corporation. Payments are scheduled each May 15 and November 15 through November, 2025. The refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,008,076. The refunded debt is considered defeased and is not reported in the University's financial statements.

**Series J 2005, July 21, 2005** - In July 2005, the University issued \$25,750,000 of Series J 2005 Auction Rate Facilities Improvement Revenue Bonds at an initial rate of 2.35%, to fund the majority of a student facilities enhancement project on the Bozeman campus. The proceeds, together with University funds, will be used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. As of June 30, 2006, the fitness center and theater were under construction, and design on the Strand Union renovation was nearing completion. The bonds will be repaid with a combination of student fees and auxiliary operations revenues. Principal payments begin during the fiscal year ending June 30, 2007 and continue each May and November through November, 2035.

**Series K 2006, July 26, 2006** - In July 2006, the University issued its Series K refunding debt in the principal amount of \$13.71 million. The proceeds were used to refund portions of the Series E 1998 and Series D 1996 debt, and resulted in an economic gain to the University of \$704,468. The proceeds of the Series K Bonds 2006 were used to acquire United States Government Obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the \$7,315,000 Series D 1996 Bonds maturing on and after November 15, 2007 (which were redeemed at par on November 15, 2006), and to pay, when due, at maturity or upon redemption, the principal of and interest on the \$5,840,000 Series E 1998 Bonds that were refunded. The refunded Series D 1996 Bonds and Series E 1998 Bonds are no longer considered to be Outstanding under the Indenture. \$705,000 of Series D 1996 Bonds maturing in 2007 and \$910,000 of Series E 1998 Bonds maturing in 2007 through 2009 were not refunded with the proceeds of the Series K 2006 Bonds, and will be retired in accordance with original repayment schedules.

**Pledged revenues** - During June 30, 2007, the University's bonds were payable from and secured by a parity first lien on and pledge of certain gross and net revenues, which comprised: 1) all student building fees and certain



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student union use fees assessed against students attending the University; 2) net student housing system pledged revenues, after the payment of operation and maintenance expenses of such facilities; 3) certain rental and other income generated by the pledged facilities; 4) a HUD debt service grant; 5) lease rentals from the Museum of the Rockies; 6) all Land Grant income; 7) certain student athletic fees; 8) certain Health & Physical Education fees; 9) MSU- Bozeman Fieldhouse fees; 10) capitalized interest and earnings on certain funds created under the Indenture; 11) technology fees assessed to students until the Series F 1998 Bonds are paid and discharged; 12) certain Grant-related Facilities & Administrative Costs with respect to the Series H 2004 debt; 13) revenue generated from the student facility enhancement fee; 14) lease income generated from the University's lease with the ASMSU Bookstore; and 15) student fee generated by the student union building fees. None of the net pledged revenues are derived from facilities or fees relating to the Great Falls Campus.

**Defeased debt** – In prior years, the University defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the defeased issues. Accordingly, neither the trust account assets nor the liability for the defeased bonds are included in the University's financial statements. Certain of the transactions met the qualifications for legal defeasance, while others are considered to be defeased in substance. At June 30, 2007 and 2006, \$2,520,000 and \$3,415,000 of bond principal outstanding was considered to be defeased in substance.

**Notes payable** – consisted of the following as of June 30:

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>2007</b>	<b>2006</b>
<i>GE Capital</i>				
Information Technology Wiring Project	4.18%	09/01/07	\$ 86,556	\$ 254,389
<i>Independence Bank</i>				
MSU Northern Admissions Auto Loan	0.00%	09/01/07	4,572	9,144
<i>Koch Financial Corporation</i>				
Information Technology Oracle Site License	4.24%	04/01/14	900,603	-
<i>MSU-Northern Foundation:</i>				
MacKenzie Hall Wiring	5.00%	10/01/17	124,263	124,263
Campus Backbone Wiring	5.00%	10/01/17	225,243	225,243
Digital Phone System	5.00%	10/01/17	133,901	133,901
Brockman Wiring	5.00%	10/01/17	46,062	46,062
ITS Electronics	5.00%	10/01/17	275,700	275,700
Equipment	5.00%	10/01/17	400,000	400,000
Campus Improvements	5.00%	10/01/19	800,000	-
<i>Subtotal, MSU-Northern Foundation Loan Principal Outstanding</i>			2,005,169	1,205,169
Total note principal outstanding			\$ 2,996,900	\$ 1,468,702

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Scheduled maturities of notes payable are as follows:

Payable during the year ending June 30,	Principal	Interest	Total
2008	\$ 273,588	\$ 132,022	\$ 405,610
2009	184,170	128,497	312,667
2010	288,001	120,077	408,078
2011	301,578	106,501	408,079
2012	315,802	92,277	408,079
2013-2017	1,344,798	250,394	1,595,192
2018-2022	288,963	21,848	310,811
Total	\$ 2,996,900	\$ 851,616	\$ 3,848,516

**Advances payable to primary government** – The University participates in the State’s InterCap loan program. InterCap loans contain a variable interest rate, which is based on the underlying bond rate of the Montana Board of Investments InterCap bonds, and is adjusted annually. The rate as of June 30, 2007 was 4.85%.

Other advances were made during the mid- 1990s by the Montana Science and Technology Alliance (MSTA) to stimulate research and creative activities in Montana. Such loans were subsequently assumed by the State of Montana Board of Investments. Amounts are expected to be repaid as follows; however, actual payments are allocated between three of the state institutions of higher education based on relative proportions of annual Research and Creative Activities expenditures, and actual repayments and the timing thereof may vary.

Payable during the year ending June 30,	InterCap Loans			MSTA Advances		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 1,337,766	\$ 220,224	\$ 1,557,990	\$ 48,102	\$ 131,898	\$ 180,000
2009	1,064,172	160,656	1,224,828	49,303	130,697	180,000
2010	728,655	113,216	841,871	50,534	129,466	180,000
2011	476,643	81,378	558,021	51,796	128,204	180,000
2012	324,372	60,661	385,033	53,090	126,910	180,000
2013-2017	920,636	116,384	1,037,020	286,013	613,987	900,000
2018-2022	82,521	4,964	87,485	323,556	576,444	900,000
2023-2027	-	-	-	366,028	533,972	900,000
2028-2032	-	-	-	414,074	485,926	900,000
2033-2037	-	-	-	468,427	431,573	900,000
2038-2042	-	-	-	529,916	370,084	900,000
2043-2047	-	-	-	599,475	300,525	900,000
2048-2052	-	-	-	678,165	221,835	900,000
2053-2057	-	-	-	767,184	132,816	900,000
2058-2062	-	-	-	595,759	34,241	630,000
Total	\$ 4,934,765	\$ 757,483	\$ 5,692,248	\$ 5,281,422	\$ 4,348,578	\$ 9,630,000

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**NOTE 12 - CAPITAL LEASE OBLIGATIONS**

**Capital Leases:** The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2007:

Payable during the year ending June 30,	Principal and Interest
2008	\$ 31,900
2009	24,765
2010	8,708
2011	315
Total payments	65,688
Less amount representing interest	(7,299)
Principal balance outstanding	<u>\$ 58,389</u>

Assets acquired under capital leases consist mainly of photocopiers. These assets are valued at \$106,786, with accumulated depreciation of \$31,283.

**NOTE 13 – UNRESTRICTED NET ASSETS**

As of June 30, the University's unrestricted net assets were earmarked for the following purposes:

	2007	2006
General operating	\$ (14,751,504)	\$ (13,307,317)
Facility renewal and replacement	17,525,710	15,386,998
Student services and auxiliary department reserves, including inventories	12,325,633	11,521,563
Instruction, academic support and public service	11,392,039	11,320,219
Indirect cost recoveries and research	11,696,967	12,158,686
Unexpended plant uses	7,012,034	3,787,656
Retirement of indebtedness	6,012,060	4,544,445
Facilities services reserves, including inventories	2,936,470	2,727,417
Employer-provided benefits	1,543,333	1,526,592
Agricultural Experiment Station and Extension Services; including livestock inventories	2,871,460	1,988,485
Administration and finance	3,735,361	3,096,423
Student organizations	1,025,340	897,561
Livestock inventories	595,770	555,688
President's office	2,929,449	2,228,487
Total unrestricted net assets	<u>\$ 66,850,122</u>	<u>\$ 58,432,903</u>

The University has not funded the compensated absences balance related to employees paid using state general operating funds, creating negative net asset balances of \$14.8 million and \$13.3 million as of June 30, 2007 and 2006, respectively. Other funds have largely been earmarked for minor and major equipment replacement, facility renovation, operating contingencies, and maintenance and renovation projects in progress as of June 30.

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**NOTE 14 – MATRIX OF NATURAL AND FUNCTIONAL OPERATING EXPENSES**

Year Ended June 30, 2007	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation and Benefits	\$ 86,183,514	\$ 60,069,714	\$ 17,412,417	\$ 16,581,270	\$ 16,636,947	\$ 15,100,879	\$ 7,422,403	\$ 18,086,929	\$ -	\$ 237,494,073
Supplies and Services	7,172,809	28,278,777	4,819,442	5,427,326	4,946,772	2,100,327	6,628,611	9,153,336	-	68,527,400
Travel	1,691,866	4,566,422	884,067	803,986	2,634,241	410,344	44,829	134,012	-	11,169,767
Utilities	26,976	511,875	26,052	2,346	67,922	43	6,462,949	3,147,950	-	10,246,113
Other Operating Expenses	1,724,125	3,966,876	2,138,958	2,806,140	1,638,482	3,033,718	6,639,981	8,506,986	-	30,455,266
Scholarships and Fellowships	-	-	-	-	-	-	-	-	16,804,447	16,804,447
Depreciation and Amortization	-	-	-	-	-	-	-	-	21,611,002	21,611,002
Total	\$ 96,799,290	\$ 97,393,664	\$ 25,280,936	\$ 25,621,068	\$ 25,924,364	\$ 20,645,311	\$ 27,198,773	\$ 39,029,213	\$ 38,415,449	\$ 396,308,068

Year Ended June 30, 2006	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation and Benefits	\$ 80,697,228	\$ 59,141,598	\$ 16,735,166	\$ 16,239,544	\$ 15,673,065	\$ 13,758,219	\$ 7,068,001	\$ 16,944,575	\$ -	\$ 226,257,396
Supplies and Services	8,051,599	30,498,141	5,946,404	3,673,331	4,741,115	2,784,634	6,362,814	8,635,947	-	70,693,985
Travel	1,567,315	4,238,308	884,373	883,755	2,315,279	374,392	46,566	141,812	-	10,451,800
Utilities	8,258	556,656	23,826	3,354	75,526	140	6,434,806	3,017,311	-	10,119,877
Other Operating Expenses	1,705,756	3,501,241	2,603,387	1,871,375	1,854,090	2,236,851	6,785,917	8,575,888	-	29,134,505
Scholarships and Fellowships	-	-	-	-	-	-	-	-	15,677,964	15,677,964
Depreciation and Amortization	-	-	-	-	-	-	-	-	20,663,238	20,663,238
Total	\$ 92,030,156	\$ 97,935,944	\$ 26,193,156	\$ 22,671,359	\$ 24,659,075	\$ 19,154,236	\$ 26,698,104	\$ 37,315,533	\$ 36,341,202	\$ 382,998,765

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**NOTE 15 – RETIREMENT PLANS**

University employees eligible to participate in retirement programs are members of either the Montana Public Employees' Retirement System (PERS), the Game Wardens and Peace Officers Retirement System (GWPORS), Montana Teacher's Retirement System (TRS) the Optional Retirement Program (ORP), Federal Employees' Retirement System (FERS) or the U.S. Civil Service Retirement System (CSRS). ORP commenced in January 1988, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, ORP was made the mandatory retirement plan for new faculty and administrative staff. The Pension Benefit Obligation is not available on an individual agency basis, but is available on a statewide basis from the PERS and TRS systems or TIAA-CREF.

ORP - The ORP is a defined contribution plan, established under authority of Title 19, Chapter 21, MCA. Benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions. Annual reports that include financial statements and required supplemental information on the plan are available from TIAA-CREF, 730 Third Avenue, New York, New York 10017-3206, Phone 1-800-842-2733.

TRS - This system was established in 1937 and is governed by Title 19, Chapter 4, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for benefits is 1/60 times creditable service years times average final compensation. Rights are vested after 5 years of creditable service, and vested employees may retire at or after age 50 and receive reduced retirement benefits. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, MT 59620-0139.

PERS - This system was established in 1945 and is governed by Title 19, Chapter 3, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to substantially all public employees. Effective July 1, 2002, eligible new employees of the University are defaulted into the PERS defined benefit plan and have one year from their date of hire to elect whether to stay in the PERS defined benefit plan, enroll in the ORP plan, or enroll in the PERS Defined Contribution Plan. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by multiplying 1/56 by the number of years of service by the final average salary, unless the employee has 25 or more years of service, in which case the multiplier is 1/50. Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Administration, P.O. Box 200131, Helena, MT 59620-0131.

GWPORS – This retirement system was established in 1963 and is governed by Title 19, Chapter 8, MCA, to provide retirement services for all persons employed as game wardens and peace officers. Effective July 1, 1997, this system became the mandatory system for campus security officers employed by the Montana University System, unless they already held membership in another State retirement system. Participants are eligible to retire after completing 20 years of service and reaching age 50. Early retirement with a reduced benefit may be taken after completing 5 years of service and reaching 55 years of age. The retirement formula is 2% of the final average salary per year of service. Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Administration, P.O. Box 200131, Helena, MT 59620-0131.

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FERS - This plan commenced in 1986 and is available to Federal employees joining the Extension Service staff without a break in service. This retirement plan contains defined benefit plan components, a Basic Benefit Plan and Social Security, and a defined contribution component, the Thrift Savings Plan (TSP). Basic benefits can be received at age 55 with as little as 10 years of service, and minimum retirement benefits at age 62 with 5 years of service. The formula for basic benefits is 1% of the highest consecutive three-year-average salary multiplied by the number of years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees joining the Extension Service staff without a break in service. CSRS is a defined benefit plan. The retirement benefits are based upon the highest consecutive three-year-average salary. Retirees are eligible for cost of living adjustments the year after retirement. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service.

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 43,340,380	\$ 21,027,028	\$ 97,641,695	\$ 1,512,753	\$ 694,707	\$ 644,267
Total Payroll	\$ 190,391,213	\$ 190,391,213	\$ 190,391,213	\$ 190,391,213	\$ 190,391,213	\$ 190,391,213
Employer contributions*	\$ 3,005,051	\$ 2,256,431	\$ 4,809,014	\$ 110,326	\$ 76,534	\$ 57,984
% of covered payroll	6.900%	7.470%	4.49%-4.96%	3.82%-7.54%	1.00%-10.00%	9.000%
Employee contributions	\$ 2,990,486	\$ 2,054,615	\$ 6,882,877	\$ 118,247	\$ 84,809	\$ 68,034
% of covered payroll	6.900%	7.15%	7.051%	0.10%-5.25%	0.10%-8.50%	10.560%
ORP contribution to TRS		\$ 3,683,698				
% of covered payroll		4.040%				
ORP contributions to PERS	\$ 155,711					
% of covered payroll	2.410%					

\*Includes TRS Option 1 payments of \$687,553.

Covered payroll excludes students employed under the College Work Study programs and part-time student employees.

Amounts contributed to retirement plans during the past three years were equal to the required contribution each year. The amounts contributed by the University and its employees were:

Year ended June 30,	PERS	TRS	ORP	CSRS	FERS	GWPORS
2005	\$ 5,665,959	\$ 6,572,064	\$ 9,932,451	\$ 250,068	\$ 125,538	\$ 75,356
2006	\$ 5,929,370	\$ 7,353,411	\$ 10,864,950	\$ 228,510	\$ 146,824	\$ 93,007
2007	\$ 6,151,248	\$ 7,994,744	\$ 11,691,891	\$ 228,573	\$ 161,343	\$ 126,018

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**Pension data for the year ended June 30, 2006:**

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 41,970,625	\$ 22,015,469	\$ 90,846,976	\$ 1,878,172	\$ 643,993	\$ 475,495
Total Payroll	\$ 182,431,264	\$ 182,431,264	\$ 182,431,264	\$ 182,431,264	\$ 182,431,264	\$ 182,431,264
Employer contributions*	\$ 2,893,619	\$ 2,054,792	\$ 4,474,350	\$ 109,568	\$ 71,286	\$ 42,795
% of covered payroll	6.900%	7.470%	4.490%-4.960%	3.820%-7.540%	1.000%-10.000%	9.000%
Employee contributions	\$ 2,890,813	\$ 1,871,370	\$ 6,390,600	\$ 118,942	\$ 75,538	\$ 50,212
% of covered payroll	6.900%	7.15%	7.034%	0.100%-5.250%	0.100%-8.500%	10.560%
ORP contribution to TRS		\$3,427,249				
% of covered payroll to TRS		4.040%				
ORP contribution to PERS	\$ 144,938					
% of covered payroll to PERS	2.410%					

\*Includes TRS Option 1 payments of \$ 410,236.

**NOTE 16 – RISK MANAGEMENT**

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, Sections 2-9-101 through 305, MCA, and ARM Section 2.2.298, require participation of all state agencies in the self- insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self- insurance program includes coverage for commercial general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self- insured retentions, by purchasing other commercial coverage through the State's broker, Willis of Seattle, for excess property, crime, fidelity, boiler and machinery, and fine arts coverage. Coverage for aircraft and hull liability is held through Mountain Air. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University's Department of Safety and Risk Management ("SRM") establishes guidelines and provides consultation in risk assessment, risk avoidance, risk acceptance and risk transfer.

The Tort Claims Act of the State of Montana, Section 2-9-102, MCA, provides that governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties, whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature. Accordingly, Section 2-9-305, MCA, requires that the State "provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment." Safety and Risk Management also provides commercial coverage for other risk exposures that are not covered by the State's self- insurance program.

**Buildings and contents** – are insured for replacement value. For each loss covered by the State's self- insurance program and commercial coverage, MSU has a \$1,000 per occurrence retention.

**General liability and tort claim coverage** – include comprehensive general liability, auto liability, personal injury liability, officer's and director's liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University's participation in the State's self- insurance program.

**Self-Funded Programs** – The University's health care program is self-funded, and is provided through participation in the Montana University System (MUS) Inter-unit Benefits Program. The MUS program is funded on an actuarial basis and the University believes that sufficient reserves exist to pay run-off claims related to prior years, and that premiums and University contributions are sufficient to pay current and future claims.

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Effective July 1, 2003, the University adopted a self-funded workers' compensation insurance program, provided through membership in the MUS Self Insured Worker's Compensation Program. The MUS program is funded on an actuarial basis and utilizes an OCHE employee as an in-house administrator. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

The MUS program incorporates a self- insured retention of \$500,000 per claim and excess commercial coverage to statutory limits. Employer's liability is provided, with a \$500,000 retention and an excess insurance limit of \$1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses.

**NOTE 17 – COMMITMENTS AND CONTINGENT LIABILITIES**

**Operating leases** – The University is committed under non-cancelable operating leases as follows:

<b>Minimum rental payments for operating leases are due in the years ending June 30,</b>	<b>Amount</b>
2008	\$ 2,377,269
2009	2,011,246
2010	1,868,463
2011	1,312,095
2012	1,163,709
2013-2017	5,376,182
2018-2022	2,163,680
Total	<u>\$ 16,272,644</u>

Payments made under operating leases during the years ended June 2007 and 2006 totaled \$2,266,539 and \$1,686,738, respectively.

**Legal actions** – The University is a defendant in legal actions arising in the normal course of business. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position, results of operations or cash flows in excess of what has already been accrued in the accompanying financial statements.

**Refundable grants** – The University receives grants and other forms of reimbursement from various Federal and State agencies. These funds are subject to review and audit by cognizant agencies. The University is currently responding to a federal audit in which questioned costs of approximately \$200,000 were noted. The University does not expect any material adjustments or repayments to result from such audits.



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The University has initiated construction or is authorized to do so, on the following major capital and maintenance projects:

<b>Description</b>	<b>Amount Expended through June 2007</b>	<b>Remaining Amount Authorized</b>	<b>Total Expected Project Cost</b>
Billings College of Technology*	\$ 4,076,398	\$ 7,185,602	\$ 11,262,000
Fire Sprinklers McMullen & Library*	-	155,000	155,000
COT Soccer Field/Main Entrance *	-	1,000,000	1,000,000
Renovate McMullen Hall *	-	1,924,500	1,924,500
AJM Johnson Building Exterior	16,343	308,657	325,000
Animal Bioscience Facility	60,500	12,439,500	12,500,000
Animal Handling Facilities*	3,730	156,270	160,000
ARC East Autoclave	132,420	19,980	152,400
Bozeman Campus Roof Repairs*	58,956	1,149,314	1,208,270
Campus Duckpond Reconstruction	999	249,001	250,000
CARC Improvement*	206,045	23,955	230,000
Chemistry/Biochemistry Facility	20,808,189	3,691,811	24,500,000
Cobleigh Hall Reroof*	264,531	6,577	271,108
Cobleigh Sub Zero Lab	136,499	1,363,501	1,500,000
Cooley Renovation	212,635	4,787,365	5,000,000
Creative Arts Complex Reroof*	159,935	401,535	561,470
Culbertson Hall Reroof*	219,414	-	219,414
Culbertson Window Replacement	249	181,531	181,780
EARC Renovation*	157,595	52,405	210,000
EPS Building Clean Room	2,034,608	195,810	2,230,418
EPS Lobby Renovation	240,058	1,347,227	1,587,285
Gaines Hall Renovation*	594,368	2,905,632	3,500,000
Hagner Science Cooling Upgrade*	-	230,400	230,400
Hamilton Hall Restoration*	174,600	25,400	200,000
Heating Plant Seismic Improvements*	984,233	-	984,233
Hedges North Area Landscape	225,645	200,955	426,600
Hedges North Water Heater Replacement	98,565	10,535	109,100
Huffman University Police Renovation	204,946	14,254	219,200
Johnstone Harrison Fire Sprinkler System	465,226	315,774	781,000
Julia Martin Kitchen Bathroom Renovation	133,527	14,473	148,000
Library ITC Electrical System Upgrade	105,307	245,693	351,000
Lindfield South Reroof*	204,510	26,490	231,000
Marsh Bio Safety Lab Construction	253,311	2,846,689	3,100,000
Marsh Lab BSL III Construction*	2,355,973	227,384	2,583,357
Museum of the Rockies Drain Modification	4,686	138,314	143,000
Museum of the Rockies Expansion Plan	51,500	300,000	351,500
Museum of the Rockies Renovation	388,085	6,415	394,500
Pesticide Handling Facility*	191,392	-	191,392
Plew Building Remodel	407,567	2,433	410,000
Plew Office Remodel	128,577	275,367	403,944
Residence Halls Shower Replace	134,418	17,553	151,971
Roskie Lobby Renovation	383,120	-	383,120
SARC Machine Shop*	301,420	255,255	556,675
Stabilze Masonry*	-	2,600,000	2,600,000
Student Facilities Enhancement	17,097,544	14,806,530	31,904,074
Taylor Basement Renovation	173,200	30,000	203,200
Towne Farm Shop Construction*	17,023	432,977	450,000
Upgrade Electrical Distribution*	1,256,910	60,776	1,317,686
Visual Communications Building Reroof*	5,142	277,058	282,200
Visual Communications Window Repair*	3,440	246,560	250,000
Water/Sewer System Improvements*	-	498,750	498,750
Great Falls COT Building Expansion*	5,919,019	5,980,351	11,899,370
Pershing Hall Exterior Renovation*	173,488	35,512	209,000
Upgrade Pershing Hall*	408,659	8,721	417,380
Campus Improvements*	931,531	68,269	999,800
<b>Totals</b>	<b>\$ 62,566,036</b>	<b>\$ 69,744,061</b>	<b>\$ 132,310,097</b>

\* Certain projects are funded wholly or partially by the State's Long Range Building Program, and are administered by the State Architecture and Engineering Division.

**Montana State University**  
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**Notes to Consolidated Financial Statements**  
**As of and for Each of the Years Ended June 30**

**(continued)**

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**NOTE 18 – RELATED PARTIES**

Private nonprofit organizations with relations to the University include MSU Foundation, MSU-Billings Foundation (including the Sting Athletic Association and the Alumni Association), MSU-Northern Foundation, MSU-Bozeman Alumni Association, MSU-Bozeman Bobcat Club (formerly known as the MSU-Bozeman Athletic Scholarship Association), MSU-Bozeman Bookstore, MSU-Bozeman Friends of KUSM, MSU-Billings Friends of KEMC and the Museum of the Rockies, Inc. As discussed in note 20, certain of the parties are considered Component Units of the University.

During the years ended June 30, 2007 and 2006, respectively, the Foundations provided \$7,536,294 and \$5,965,561 in scholarship and other gift support paid directly to the University, in addition to significant payments made to others in support of the University. The University paid to its Foundations \$1,258,151 and \$1,330,462 during the years ended 2007 and 2006, respectively, which included payments for contracted services, capital campaign support, and operating leases.

MSU- Bozeman leased certain office space from Advanced Technology, Inc. (ATI), a subsidiary of the MSU Foundation. Rental and other payments to ATI totaled \$166,906 during 2007 and \$194,828 during 2006. In June 2007, the University committed to pay the MSU Foundation \$350,000 in rent for a 20-year space rental agreement, of which \$70,000 was paid prior to June 30, 2007. The remaining payments are included within the amounts disclosed in Note 17. Friends of Montana Public Television provided \$704,234 during 2007 and \$537,135 during 2006, and Friends of KEMC Public Radio provided \$480,676 during 2007 and \$482,000 during 2006 in support of the University's television and radio stations.

The Museum of the Rockies, Inc. paid \$300,000 per year to the University for facility rental, and provided \$1,557,266 and \$1,910,258 during the fiscal years ended June 2007 and 2006, respectively, in support of the University, primarily as reimbursement for Museum staff salaries and benefits as well as improvements to the leased facility. The Museum of the Rockies lease continues at a rate of \$300,000 per year through 2016.

The MSU - Bozeman Bobcat Club provided \$626,500 and \$684,000 in support of athletic programs during the years ended June 30, 2007 and 2006.

**NOTE 19 – SUBSEQUENT EVENT**

The University is in the process of negotiating certain new leases of off-campus space, which are expected to result in additional lease commitments.

**NOTE 20 – COMPONENT UNITS**

Entities included as component units in the financial statements are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University may not control the timing or amount of receipts from these entities, the majority of the revenues or incomes thereon that the entities hold and invest are restricted by donors to the activities of the University. The entities included as component units in the financial statements are the MSU Foundation (406-994-2053), the MSU-Billings Foundation (406-657-2244), the MSU-Northern Foundation (406-265-3711), the MSU Bobcat Club (formerly known as the Montana State University Athletic Scholarship Association) (406-994-3741), and the Museum of the Rockies, Inc.(406-994-3466).

Condensed financial information for each of the University's component units follows. Certain of the component units restated their prior year financial statements after discovering minor errors, primarily related to the classification of expenses between unrestricted and temporarily restricted net asset classifications. In addition, the value of assets contributed to a trust and classification of certain life insurance contributions were corrected. The information presented below has been restated to reflect the corrected data.

**Montana State University**  
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**Notes to Consolidated Financial Statements**  
**As of and for Each of the Years Ended June 30**

**(continued)**

**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Financial Position**  
**As of June 30, 2007 or December 31, 2006\***

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
<b>Assets:</b>						
Cash and investments	\$ 131,036,631	\$ 18,167,568	\$ 2,780,401	\$ 8,888,290	\$ 2,440,413	\$ 163,313,303
Amounts due from MSU	-	-	2,005,169	-	-	2,005,169
Other receivables, net	5,317,709	1,650,400	1,152,733	1,925,516	28,203	10,074,561
Capital assets, net	3,660,433	2,058,881	3,438	3,226,908	9,184	8,958,844
Other assets	495,164	170,905	61,230	2,776,398	5,400	3,509,097
<b>Total assets</b>	<b>\$ 140,509,937</b>	<b>\$ 22,047,754</b>	<b>\$ 6,002,971</b>	<b>\$ 16,817,112</b>	<b>\$ 2,483,200</b>	<b>\$ 187,860,974</b>
<b>Liabilities:</b>						
Accounts payable and other liabilities	\$ 548,070	\$ 632,164	\$ 3,149	\$ 337,115	\$ 67,862	\$ 1,588,360
Amounts due to MSU	-	-	-	505,356	384,750	890,106
Notes, bonds and debt obligations	2,226,244	-	-	109,954	104,203	2,440,401
Liabilities to external parties	1,037,637	242,613	2,389,300	-	-	3,669,550
Custodial funds	14,462,976	1,601,035	-	-	104,841	16,168,852
<b>Total liabilities</b>	<b>18,274,927</b>	<b>2,475,812</b>	<b>2,392,449</b>	<b>952,425</b>	<b>661,656</b>	<b>24,757,269</b>
<b>Net assets:</b>						
Unrestricted	4,818,972	4,806,417	(677,964)	7,400,020	230,625	16,578,070
Temporarily restricted	50,967,664	5,587,649	1,394,734	7,646,123	244,726	65,840,896
Permanently restricted	66,448,374	9,177,876	2,893,752	818,544	1,346,193	80,684,739
<b>Total net assets</b>	<b>122,235,010</b>	<b>19,571,942</b>	<b>3,610,522</b>	<b>15,864,687</b>	<b>1,821,544</b>	<b>163,103,705</b>
<b>Total liabilities and net assets</b>	<b>\$ 140,509,937</b>	<b>\$ 22,047,754</b>	<b>\$ 6,002,971</b>	<b>\$ 16,817,112</b>	<b>\$ 2,483,200</b>	<b>\$ 187,860,974</b>

\*The Museum of the Rockies, Inc. and the MSU- Bobcat Club maintain a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

**Montana State University**  
**(a component unit of the State of Montana)**  
**Notes to Consolidated Financial Statements**  
**As of and for Each of the Years Ended June 30**

**(continued)**

**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Activities**  
**For the Year Ended June 30, 2007 or December 31, 2006\***

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
<b>Revenues:</b>						
Contributions	\$ 12,107,693	\$ 2,184,645	\$ 781,150	\$ 2,579,188	\$ 732,901	\$ 18,385,577
Investment income and unrealized gain on investments	16,596,505	2,264,354	314,963	697,647	88,970	19,962,439
Support from University	-	383,166	136,500	-	-	519,666
Other income	2,783,671	935,899	4,540	2,188,940	769,408	6,682,458
Total revenues	31,487,869	5,768,064	1,237,153	5,465,775	1,591,279	45,550,140
<b>Expenses:</b>						
University support	5,375,579	841,238	317,863	1,234,697	-	7,769,377
Scholarships and other program expenses	1,825,366	1,423,358	175,765	1,508,390	741,005	5,673,884
Supporting services	3,024,420	596,713	316,749	1,123,225	864,998	5,926,105
Total expenses	10,225,365	2,861,309	810,377	3,866,312	1,606,003	19,369,366
Change in net assets before nonoperating items	21,262,504	2,906,755	426,776	1,599,463	(14,724)	26,180,774
Nonoperating expenses	(16,888)	-	-	-	-	(16,888)
<b>Change in net assets</b>	21,245,616	2,906,755	426,776	1,599,463	(14,724)	26,163,886
<b>Net assets, beginning of fiscal year</b>	100,989,394	16,665,187	3,183,746	14,265,224	1,836,268	136,939,819
<b>Net assets, end of fiscal year</b>	\$ 122,235,010	\$ 19,571,942	\$ 3,610,522	\$ 15,864,687	\$ 1,821,544	\$ 163,103,705

\*The Museum of the Rockies, Inc. and the MSU- Bobcat Club maintain a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

**Component Unit Investment Composition as of June 30 or  
December 31 \*:**

	2007	2006
Pooled investments:		
Equity securities	\$ 80,411,199	\$ 60,540,687
Debt securities	24,448,490	32,285,114
Alternative investments	27,949,090	18,485,516
Cash equivalents and other	729,209	2,710,597
Real Estate	6,246,790	5,731,000
US Treasuries	905,315	609,323
Other real estate	1,092,015	1,413,916
Other investments	13,773,343	12,276,749
Investments held in trust	1,974,444	1,894,147
Total	\$ 157,529,895	\$ 135,947,049

\* The Museum of the Rockies, Inc. and the MSU- Bobcat Club maintain a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

**Montana State University**  
**(a component unit of the State of Montana)**  
**Notes to Consolidated Financial Statements**  
**As of and for Each of the Years Ended June 30**

**(continued)**

**Montana State University**

**Condensed Combining Schedule of Component Unit Statements of Financial Position**

**As of June 30, 2006 or December 31, 2005\***

	<b>Montana State University Foundation</b>	<b>Montana State University- Billings Foundation</b>	<b>Montana State University- Northern Foundation</b>	<b>Museum of the Rockies, Inc.</b>	<b>Montana State University Bobcat Club</b>	<b>Combined</b>
<b>Assets:</b>						
Cash and investments	\$ 112,134,517	\$ 15,880,116	\$ 3,469,113	\$ 8,121,225	\$ 2,399,428	\$ 142,004,399
Amounts due from MSU	-	-	1,205,169	-	-	1,205,169
Other receivables, net	1,534,719	1,555,000	872,394	2,260,439	37,660	6,260,212
Capital assets, net	3,733,631	1,382,810	6,418	2,552,042	14,245	7,689,146
Other assets	577,322	161,700	61,230	2,131,476	63,800	2,995,528
<b>Total assets</b>	<b>\$ 117,980,189</b>	<b>\$ 18,979,626</b>	<b>\$ 5,614,324</b>	<b>\$ 15,065,182</b>	<b>\$ 2,515,133</b>	<b>\$ 160,154,454</b>
<b>Liabilities:</b>						
Accounts payable and other liabilities	\$ 617,821	\$ 761,807	\$ 2,184	\$ 307,921	\$ 56,986	\$ 1,746,719
Amounts due to MSU	-	-	-	367,037	342,000	709,037
Notes, bonds and debt obligations	2,346,728	-	-	125,000	68,048	2,539,776
Liabilities to external parties	1,058,937	216,973	2,428,394	-	-	3,704,304
Custodial funds	12,967,309	1,335,659	-	-	211,831	14,514,799
<b>Total liabilities</b>	<b>16,990,795</b>	<b>2,314,439</b>	<b>2,430,578</b>	<b>799,958</b>	<b>678,865</b>	<b>23,214,635</b>
<b>Net assets:</b>						
Unrestricted	3,188,724	4,277,974	(720,599)	6,658,769	247,499	13,652,367
Temporarily restricted	34,675,095	3,679,415	1,205,243	6,788,217	268,551	46,616,521
Permanently restricted	63,125,575	8,707,798	2,699,102	818,238	1,320,218	76,670,931
<b>Total net assets</b>	<b>100,989,394</b>	<b>16,665,187</b>	<b>3,183,746</b>	<b>14,265,224</b>	<b>1,836,268</b>	<b>136,939,819</b>
<b>Total liabilities and net assets</b>	<b>\$ 117,980,189</b>	<b>\$ 18,979,626</b>	<b>\$ 5,614,324</b>	<b>\$ 15,065,182</b>	<b>\$ 2,515,133</b>	<b>\$ 160,154,454</b>

\*The Museum of the Rockies, Inc. and the MSU- Bobcat Club maintain a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

**Montana State University**  
**(a component unit of the State of Montana)**  
**Notes to Consolidated Financial Statements**  
**As of and for Each of the Years Ended June 30**

**(continued)**

**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Activities**  
**For the Year Ended June 30, 2006 or December 31, 2005**

	<b>Montana State University Foundation</b>	<b>Montana State University- Billings Foundation</b>	<b>Montana State University- Northern Foundation</b>	<b>Museum of the Rockies, Inc.</b>	<b>Montana State University Bobcat Club</b>	<b>Combined</b>
<b>Revenues:</b>						
Contributions	\$ 8,830,687	\$ 2,168,181	\$ 659,920	\$ 5,170,066	\$ 641,143	\$ 17,469,997
Investment income and unrealized gain on investments	6,478,455	1,148,363	214,647	327,349	25,297	8,194,111
Support from University	-	464,850	141,000	-	-	605,850
Other income	2,569,522	581,513	13,103	2,660,133	731,927	6,556,198
<b>Total revenues</b>	<b>17,878,664</b>	<b>4,362,907</b>	<b>1,028,670</b>	<b>8,157,548</b>	<b>1,398,367</b>	<b>32,826,156</b>
<b>Expenses:</b>						
University support	3,410,068	1,412,321	564,719	962,861	-	6,349,969
Scholarships and other program expenses	1,448,954	1,025,895	280,949	1,035,878	760,399	4,552,075
Supporting services	2,740,579	561,008	253,282	1,064,595	681,891	5,301,355
<b>Total expenses</b>	<b>7,599,601</b>	<b>2,999,224</b>	<b>1,098,950</b>	<b>3,063,334</b>	<b>1,442,290</b>	<b>16,203,399</b>
Change in net assets before nonoperating items	10,279,063	1,363,683	(70,280)	5,094,214	(43,923)	16,622,757
Nonoperating expenses	(25,810)	-	-	-	-	(25,810)
<b>Change in net assets</b>	<b>10,253,253</b>	<b>1,363,683</b>	<b>(70,280)</b>	<b>5,094,214</b>	<b>(43,923)</b>	<b>16,596,947</b>
<b>Net assets, beginning of fiscal year</b>	<b>90,736,141</b>	<b>15,301,504</b>	<b>3,254,026</b>	<b>9,171,010</b>	<b>1,880,191</b>	<b>120,342,872</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 100,989,394</b>	<b>\$ 16,665,187</b>	<b>\$ 3,183,746</b>	<b>\$ 14,265,224</b>	<b>\$ 1,836,268</b>	<b>\$ 136,939,819</b>

**Unaudited Supplemental Information**

Montana State University  
Unaudited Consolidating Statements of Net Assets  
June 30, 2007

ASSETS	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Inter-campus Eliminations	Total
<b>Current assets:</b>									
Cash and cash equivalents	\$ 70,890,467	\$ 5,696,979	\$ 2,750,601	\$ 150,718	\$ 20,985,709	\$ 522,468	\$ 4,441,303	\$ -	\$ 105,438,245
Securities lending collateral	638,593	-	-	-	-	-	-	-	638,593
Accounts and grants receivable, net	4,681,918	12,975	67,545	16,839	1,317,119	704,355	202,194	-	7,002,945
Amounts receivable from Federal government	13,660,214	-	365,602	-	75,775	4,527	49,042	-	14,155,160
Amounts receivable from primary government	1,398,932	7,305	18,938	-	163,064	42,026	21,856	-	1,652,121
Amounts receivable from Montana component units	10,170	-	-	-	8,327	20,181	-	-	38,678
Amounts receivable from MSU campuses	855,008	-	-	-	282,148	483,454	745	(1,621,355)	-
Loans receivable, net	3,629,097	-	-	-	560,514	319,928	-	-	4,509,539
Inventories	802,736	595,770	-	3,831	916,929	253,670	201,970	-	2,774,906
Prepaid expenses and other current assets	1,489,592	-	-	-	109,340	29,118	13,760	-	1,641,810
<b>Total current assets</b>	<b>98,056,727</b>	<b>6,313,029</b>	<b>3,202,686</b>	<b>171,388</b>	<b>24,418,925</b>	<b>2,379,727</b>	<b>4,930,870</b>	<b>(1,621,355)</b>	<b>137,851,997</b>
<b>Noncurrent assets:</b>									
Restricted cash and cash equivalents	1,351,181	-	-	-	12,400	13,887	11,300	-	1,388,768
Restricted investments	23,811,793	-	-	-	-	97,532	-	-	23,909,325
Loans receivable, net	13,406,039	-	-	-	2,599,130	1,327,653	-	-	17,332,822
Investments	15,422,154	-	-	-	491,716	-	-	-	15,913,870
Capital assets	202,748,000	10,408,459	104,017	146,084	42,133,738	17,898,746	13,153,091	-	286,592,135
Other noncurrent assets	1,074,029	-	-	-	41,921	-	-	-	1,115,950
<b>Total noncurrent assets</b>	<b>257,813,196</b>	<b>10,408,459</b>	<b>104,017</b>	<b>146,084</b>	<b>45,278,905</b>	<b>19,337,818</b>	<b>13,164,391</b>	-	<b>346,252,870</b>
<b>Total assets</b>	<b>\$ 355,869,923</b>	<b>\$ 16,721,488</b>	<b>\$ 3,306,703</b>	<b>\$ 317,472</b>	<b>\$ 69,697,830</b>	<b>\$ 21,717,545</b>	<b>\$ 18,095,261</b>	<b>\$ (1,621,355)</b>	<b>\$ 484,104,867</b>
<b>LIABILITIES</b>									
<b>Current liabilities:</b>									
Accounts payable and accrued liabilities	\$ 16,697,219	\$ 1,032,920	\$ 946,136	\$ 55,511	\$ 3,334,556	\$ 1,222,435	\$ 968,197	\$ -	\$ 24,256,974
Amounts payable to primary government	2,909,464	6,166	3,240	229	264,145	406,948	76,233	-	3,666,425
Amounts payable to Montana component units	380,281	-	150	-	11,416	-	252	-	392,099
Amounts payable to MSU campuses	1,009,556	383	-	657	252,996	337,498	20,265	(1,621,355)	-
Securities Lending Liability	638,593	-	-	-	-	-	-	-	638,593
Property held in trust for others	868,467	-	-	-	134,164	1,988	97,723	-	1,102,342
Deferred revenues	5,609,444	-	2,916	-	1,620,301	678,066	114,160	-	8,024,887
Compensated absences	8,183,928	1,176,332	870,327	58,455	1,819,638	689,915	236,698	-	13,035,293
Current portion debt and capital lease obligations	4,382,174	-	-	-	390,000	248,587	-	-	5,020,761
<b>Total current liabilities</b>	<b>40,679,126</b>	<b>2,215,801</b>	<b>1,822,769</b>	<b>114,852</b>	<b>7,827,216</b>	<b>3,585,437</b>	<b>1,513,528</b>	<b>(1,621,355)</b>	<b>56,137,374</b>
<b>Noncurrent liabilities:</b>									
Advances from primary government	7,022,898	-	-	-	738,826	881,877	186,718	-	8,830,319
Debt and capital lease obligations	106,729,174	-	-	-	12,613,512	3,181,154	-	-	122,523,840
Compensated absences	8,256,928	1,186,824	878,090	58,977	1,589,315	679,794	379,456	-	13,029,384
Due to Federal government	16,823,562	-	-	-	3,065,375	1,482,494	-	-	21,371,431
<b>Total noncurrent liabilities</b>	<b>138,832,562</b>	<b>1,186,824</b>	<b>878,090</b>	<b>58,977</b>	<b>18,007,028</b>	<b>6,225,319</b>	<b>566,174</b>	-	<b>165,754,974</b>
<b>Total liabilities</b>	<b>179,511,688</b>	<b>3,402,625</b>	<b>2,700,859</b>	<b>173,829</b>	<b>25,834,244</b>	<b>9,810,756</b>	<b>2,079,702</b>	<b>(1,621,355)</b>	<b>221,892,348</b>
<b>NET ASSETS</b>									
Invested in capital assets, net of related debt	104,363,884	10,408,459	104,018	146,083	28,242,200	13,346,620	13,153,091	-	169,764,355
Restricted - nonexpendable	11,246,743	-	-	-	595,721	348,797	11,300	-	12,202,561
Restricted - expendable	11,456,017	467,703	235,435	-	846,970	278,362	110,994	-	13,395,481
Unrestricted	49,291,591	2,442,701	266,391	(2,440)	14,178,695	(2,066,990)	2,740,174	-	66,850,122
<b>Total net assets</b>	<b>176,358,235</b>	<b>13,318,863</b>	<b>605,844</b>	<b>143,643</b>	<b>43,863,586</b>	<b>11,906,789</b>	<b>16,015,559</b>	-	<b>262,212,519</b>
<b>Total liabilities and net assets</b>	<b>\$ 355,869,923</b>	<b>\$ 16,721,488</b>	<b>\$ 3,306,703</b>	<b>\$ 317,472</b>	<b>\$ 69,697,830</b>	<b>\$ 21,717,545</b>	<b>\$ 18,095,261</b>	<b>\$ (1,621,355)</b>	<b>\$ 484,104,867</b>



Montana State University  
Unaudited Consolidating Statements Revenues, Expenses and Changes in Net Assts  
For the year ended June 30, 2007

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Intercampus Eliminations	Total
<b>Operating revenues:</b>									
Tuition and fees	\$ 81,065,595	\$ -	\$ -	\$ -	\$ 21,316,788	\$ 4,871,679	\$ 3,612,468	\$ -	\$ 110,866,530
Federal appropriations	-	2,034,020	3,062,792	-	-	-	-	-	5,096,812
Federal grants and contracts	82,730,038	-	431,009	-	9,468,993	3,692,213	2,324,626	(735,524)	97,911,355
State grants and contracts	5,739,108	-	146,530	-	536,480	366,068	263,046	(22,688)	7,028,544
Non-governmental grants and contracts	8,217,013	-	191,597	-	678,440	90,844	85,886	-	9,263,780
Indirect cost recoveries	16,236,128	-	-	-	428,167	170,239	1,028	-	16,835,562
Educational, public service and outreach revenues	13,654,561	1,951,255	3,215,519	182,118	1,512,643	357,373	86,105	(1,483,087)	19,476,487
Auxiliary - housing	11,530,190	-	-	-	1,325,972	484,428	-	-	13,340,590
Auxiliary - food service	11,293,219	-	-	-	773,607	673,801	47,054	-	12,787,681
Auxiliary - other auxiliary sales and services	3,275,464	-	-	-	3,912,723	702,545	1,006,383	(91,975)	8,805,140
Interest earned on loans	47,015	-	-	-	75,192	5,090	-	-	127,297
Other operating revenues	917,491	29,627	2,608	366	140,383	13,393	12,159	-	1,116,027
<b>Total operating revenues</b>	<b>234,705,822</b>	<b>4,014,902</b>	<b>7,050,055</b>	<b>182,484</b>	<b>40,169,388</b>	<b>11,427,673</b>	<b>7,438,755</b>	<b>(2,333,274)</b>	<b>302,655,805</b>
<b>Operating expenses:</b>									
Compensation and benefits	161,703,495	12,701,510	10,434,482	462,721	31,768,771	12,474,838	7,948,256	-	237,494,073
Operating expenses	89,093,846	2,625,907	2,219,303	333,272	20,081,852	6,176,966	2,921,433	(3,054,033)	120,398,546
Scholarships and fellowships	10,339,288	-	4,743	-	3,698,919	1,721,861	1,039,636	-	16,804,447
Depreciation and amortization	17,029,193	690,144	33,648	58,429	2,583,976	799,192	416,420	-	21,611,002
<b>Total operating expenses</b>	<b>278,165,822</b>	<b>16,017,561</b>	<b>12,692,176</b>	<b>854,422</b>	<b>58,133,518</b>	<b>21,172,857</b>	<b>12,325,745</b>	<b>(3,054,033)</b>	<b>396,308,068</b>
<b>Operating loss</b>	<b>(43,460,000)</b>	<b>(12,002,659)</b>	<b>(5,642,121)</b>	<b>(671,938)</b>	<b>(17,964,130)</b>	<b>(9,745,184)</b>	<b>(4,886,990)</b>	<b>720,759</b>	<b>(93,652,263)</b>
<b>Nonoperating revenues (expenses):</b>									
State appropriations	40,060,295	11,500,836	5,612,712	620,292	16,636,436	7,631,809	4,744,049	-	86,806,429
Land grant and timber sales income	1,875,786	32,409	-	-	310,873	-	-	-	2,219,068
Gifts	7,649,529	84,301	52,546	-	1,663,967	750,863	51,901	-	10,253,107
Investment Income	7,036,599	280,942	117,579	8,134	1,046,136	36,957	213,677	-	8,740,024
Interest expense	(5,119,008)	(82,585)	-	-	(597,991)	(165,931)	(18,685)	-	(5,984,200)
<b>Net nonoperating revenues (expenses)</b>	<b>51,503,201</b>	<b>11,815,903</b>	<b>5,782,837</b>	<b>628,426</b>	<b>19,059,421</b>	<b>8,253,698</b>	<b>4,990,942</b>	<b>-</b>	<b>102,034,428</b>
<b>Income before other revenues, expenses, gains and losses</b>	<b>8,043,201</b>	<b>(186,756)</b>	<b>140,716</b>	<b>(43,512)</b>	<b>1,095,291</b>	<b>(1,491,486)</b>	<b>103,952</b>	<b>720,759</b>	<b>8,382,165</b>
Transfers in (out)	(572,172)	38,664	98,079	(283)	(25,907)	395,535	66,084	-	-
Gain or loss on sale of fixed assets	(509,951)	15,575	796	2,113	12,950	(865)	-	-	(479,382)
Capital grants and contributions	4,392,211	865,742	12,285	-	3,968,040	1,048,519	5,691,241	(720,759)	15,257,279
<b>Change in net assets</b>	<b>11,353,289</b>	<b>733,225</b>	<b>251,876</b>	<b>(41,682)</b>	<b>5,050,374</b>	<b>(48,297)</b>	<b>5,861,277</b>	<b>-</b>	<b>23,160,062</b>
<b>Net assets, beginning of year</b>	<b>165,004,946</b>	<b>12,585,638</b>	<b>353,968</b>	<b>185,325</b>	<b>38,813,212</b>	<b>11,955,086</b>	<b>10,154,282</b>	<b>-</b>	<b>239,052,457</b>
<b>Net assets, end of year</b>	<b>\$ 176,358,235</b>	<b>\$ 13,318,863</b>	<b>\$ 605,844</b>	<b>\$ 143,643</b>	<b>\$ 43,863,586</b>	<b>\$ 11,906,789</b>	<b>\$ 16,015,559</b>	<b>\$ -</b>	<b>\$ 262,212,519</b>

**Montana State University**  
**Unaudited Selected Cash Flow Information**  
**For the year ended June 30, 2007**

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Intercampus Eliminations	MSU Consolidated
<b>Cash flows from operating activities:</b>									
Operating revenues:									
Tuition and fees	\$ 80,882,446	\$ -	\$ -	\$ -	\$ 21,139,834	\$ 5,219,634	\$ 3,512,788	\$ -	\$ 110,754,702
Federal appropriations	-	244,545	2,899,335	-	-	-	-	-	3,143,880
Federal grants and contracts	81,469,556	1,789,475	429,911	-	9,632,009	4,422,015	2,300,829	(735,524)	99,308,271
State grants and contracts	5,809,513	-	146,530	-	464,072	295,150	258,996	(22,688)	6,951,573
Private grants and contracts	9,020,866	-	191,597	-	636,200	142,428	85,886	-	10,076,977
Indirect cost recoveries	16,093,400	-	-	-	428,167	170,239	1,028	-	16,692,834
Educational, public service and outreach revenues	13,478,936	1,971,125	3,207,180	182,118	1,522,692	369,412	86,105	(1,483,087)	19,334,481
Sales and services of auxiliary enterprises	26,044,334	-	-	13,595	6,005,730	1,814,623	1,053,436	(91,975)	34,839,743
Interest on loans receivable	261,122	-	-	-	75,192	2,650	-	-	338,964
Other operating receipts	917,490	29,627	2,608	366	140,383	13,393	12,159	-	1,116,026
Operating expenses:									
Compensation and benefits	(161,533,722)	(12,602,917)	(10,210,582)	(453,933)	(31,541,320)	(12,255,955)	(7,800,435)	-	(236,398,864)
Operating expenses	(88,160,537)	(2,576,076)	(2,214,699)	(338,690)	(19,976,452)	(6,020,172)	(2,975,469)	3,054,033	(119,208,062)
Scholarships and fellowships	(10,339,287)	-	(4,744)	-	(3,698,919)	(1,721,861)	(1,039,636)	-	(16,804,447)
Loans made to students	(4,357,519)	-	-	-	(406,655)	(462,835)	-	-	(5,227,009)
Loan payments received	4,149,939	-	-	-	589,938	340,968	-	-	5,080,845
Intercampus due to/from	1,613,835	9,481	17,669	16,849	(82,276)	(1,526,290)	(49,268)	-	-
<b>Net cash used in operating activities</b>	<b>(24,649,628)</b>	<b>(11,134,740)</b>	<b>(5,535,195)</b>	<b>(579,695)</b>	<b>(15,071,405)</b>	<b>(9,196,601)</b>	<b>(4,553,581)</b>	<b>720,759</b>	<b>(70,000,086)</b>
<b>Cash flows from noncapital financing activities:</b>									
Receipts (disbursements) of funds held in trust for others	(59,873)	-	-	-	12,776	(135,695)	(15,741)	-	(198,533)
State appropriations	40,060,295	11,510,989	5,612,711	620,292	17,334,094	8,144,026	4,759,245	-	88,041,652
Gifts and contributions (expendable)	7,644,704	84,301	52,546	-	1,663,967	750,861	51,902	-	10,248,281
Land grant income	1,875,785	32,409	-	-	310,873	-	-	-	2,219,067
Repayment of long-term advance from primary government	(96,204)	-	-	-	-	-	-	-	(96,204)
Transfers between campuses and agencies	(572,172)	38,664	98,079	(283)	(25,907)	395,535	66,084	-	-
<b>Net cash flows from noncapital financing activities</b>	<b>48,852,535</b>	<b>11,666,363</b>	<b>5,763,336</b>	<b>620,009</b>	<b>19,295,803</b>	<b>9,154,727</b>	<b>4,861,490</b>	-	<b>100,214,263</b>
<b>Cash flows from capital financing activities:</b>									
Purchase of capital assets	(40,850,367)	(253,969)	(21,964)	(31,188)	(1,675,916)	(561,299)	(190,023)	(720,759)	(44,305,485)
Proceeds from sale of capital assets	116,448	15,575	796	2,113	12,950	-	-	-	147,882
Other capital financing activities	(70,000)	-	-	-	-	-	-	-	(70,000)
Proceeds from borrowings	11,774,000	-	-	-	2,534,127	800,000	-	-	15,108,127
Debt retirement	(14,383,706)	-	-	-	(2,944,999)	(179,573)	-	-	(17,508,278)
Payment of debt issue costs	(204,591)	-	-	-	(44,127)	-	-	-	(248,718)
Advances from primary government	707,907	-	-	-	695,000	416,030	-	-	1,818,937
Repayment of advances from primary government	(1,000,268)	-	-	-	(85,411)	(225,417)	(55,575)	-	(1,366,671)
Interest paid	(4,286,538)	(82,585)	-	-	(581,239)	(150,931)	(18,685)	-	(5,119,978)
<b>Net cash change from capital financing activities</b>	<b>(48,197,115)</b>	<b>(320,979)</b>	<b>(21,168)</b>	<b>(29,075)</b>	<b>(2,089,615)</b>	<b>98,810</b>	<b>(264,283)</b>	<b>(720,759)</b>	<b>(51,544,184)</b>
<b>Cash flows from investing activities:</b>									
Purchase of investments	-	-	-	-	(20,421)	-	-	-	(20,421)
Proceeds from sale of investments	27,312,810	-	-	-	-	-	-	-	27,312,810
Investment income	6,953,959	280,942	117,581	8,134	979,051	36,956	197,657	-	8,574,280
<b>Net cash change from investing activities</b>	<b>34,266,769</b>	<b>280,942</b>	<b>117,581</b>	<b>8,134</b>	<b>958,630</b>	<b>36,956</b>	<b>197,657</b>	-	<b>35,866,669</b>
<b>Net change in cash and cash equivalents</b>	<b>10,272,561</b>	<b>491,586</b>	<b>324,554</b>	<b>19,373</b>	<b>3,093,413</b>	<b>93,892</b>	<b>241,283</b>	-	<b>14,536,662</b>
<b>Balances at beginning of year</b>	<b>61,969,087</b>	<b>5,205,393</b>	<b>2,426,047</b>	<b>131,345</b>	<b>17,904,696</b>	<b>442,463</b>	<b>4,211,320</b>	-	<b>92,290,351</b>
<b>Balances at end of year</b>	<b>\$ 72,241,648</b>	<b>\$ 5,696,979</b>	<b>\$ 2,750,601</b>	<b>\$ 150,718</b>	<b>\$ 20,998,109</b>	<b>\$ 536,355</b>	<b>\$ 4,452,603</b>	<b>\$ -</b>	<b>\$ 106,827,013</b>

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2007**

(continued)

**Montana State University**

**Overview**

The University is fully accredited by the Northwest Association of Schools and Colleges, and, in addition, by national professional accrediting organizations in teacher education, nursing, environmental health, engineering, engineering technologies, architecture, foods and nutrition, chemistry, art, music and business.

**Enrollment Data**

**Annual Full Time Equivalent Students**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Montana residents			
Undergraduate	12,988	13,217	13,080
Graduate	956	991	1,017
Non-residents			
Undergraduate	2,200	2,064	2,044
Graduate	284	291	288
Western Undergraduate Exchange	679	740	661
<b>Total</b>	<b>17,107</b>	<b>17,303</b>	<b>17,090</b>

**Tuition and Fees**

Tuition and fees vary from campus to campus, and on each campus are different for residents and nonresidents and for undergraduate students and graduate students. The ranges of tuition and fees charged for full-time students during the 2006-2007 academic year were as follows:

	<b>Resident</b>	<b>Non-Resident</b>
	<b>Undergraduate—Graduate</b>	<b>Undergraduate—Graduate</b>
Bozeman Campus	\$2,866—\$3,322	\$4,049—\$8,247
Billings Campus	\$2,546—\$2,945	\$3,596—\$7,070
Northern Campus <sup>(1)</sup>	\$2,380—\$3,042	\$3,322—\$7,594
Great Falls Campus <sup>(2)</sup>	\$1,482—N/A	\$2,958—N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

**Employees**

As of December 31, 2006, the University employed 5,541 people (head count) as follows:

	<b>Bozeman</b>	<b>Billings</b>	<b>Northern</b>	<b>Great Falls</b>	<b>Total</b>
Faculty/Professional	1,898	418	157	171	2,644
State classified system	1,145	228	77	49	1,499
Temporary hourly	332	383	33	4	752
Graduate students	628	18	-	-	646
<b>Total</b>	<b>4,003</b>	<b>1,047</b>	<b>267</b>	<b>224</b>	<b>5,541</b>

The faculty at the Billings Campus and the Great Falls Campus and virtually all of the classified employees at the University are members of and represented by various collective bargaining units. Part-time employees and administrative employees are not represented by any of the collective bargaining units.

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**MSU- Bozeman**

**Campus Overview**

On February 16, 1893, the Agricultural College of the State of Montana was founded in Bozeman as the state's first unit of higher education. Renamed The Montana College of Agriculture and Mechanic Arts, the institution was popularly known as Montana Agricultural College, or MAC. By the 1920s, the institution's preferred name was Montana State College and so it remained until July 1, 1965, when, in recognition of the enormous advances in the College's commitment to scientific and humanistic research, the thirty-ninth legislative assembly of the State of Montana changed MSC's name to Montana State University. In 1994, the Board of Regents approved a restructuring plan that created a four-campus Montana State University and gave the Bozeman campus administrative oversight of the, now, MSU-Billings, MSU-Great Falls College of Technology and MSU-Northern. Statutory authority for Montana State University-Bozeman is contained in Title 20, Chapter 25, Section 201 Montana Code Annotated. The curricula offered are organized into nine undergraduate colleges and a division providing for post-graduate, advanced degrees, as follows: College of Agriculture; College of Education, Health and Human Development; College of Engineering; College of Letters and Science; College of Business; College of Nursing; College of Arts and Architecture; Liberal Studies; University Studies; and the Division of Graduate Education.

The campus offers a diversified curriculum leading to bachelor's degrees in 51 fields covering 122 areas, master's degrees in 41 fields and doctorate degrees in 18 fields, as well as maintaining an active role in research through individual departments and programs. Funding for sponsored projects in the fiscal year ended June 30, 2006 amounted to approximately \$103 million from federal, State, local, foreign and private sources, compared to approximately \$39 million for the fiscal year ended June 30, 1996.

Situated within the City of Bozeman, the campus comprises approximately 1,170 acres and is composed of more than 40 classroom and administrative buildings, including a full-service library, nine residence halls, three cafeterias, a six-story engineering building, a six-story life science building, a health and fitness complex, the Museum of the Rockies, the Strand Union Building and numerous other classroom buildings and special laboratories. Construction of a new chemistry/biochemistry research facility, financed with the proceeds of the Series H 2004 Bonds, is expected to be completed in fall 2007. Renovation of the health and physical education complex, financed with proceeds of the Series J 2005 Bonds, is nearing completion. The State's Long Range Building Program recently approved funding for the renovation of the chemistry classroom building.

Research, creativity and technology transfer are at the core of Montana State University's mission. Faculty and students on the campus and throughout the state conduct externally funded research in a wide variety of areas that both enhances undergraduate and graduate education and provides a research and development function for the small company economy that exists in Montana.

The Continuing Education Program extends the educational facilities at the University to the citizens of the State by providing off-campus instruction in the form of courses, institutes and conferences for individuals not regularly enrolled at the University.

Public service and outreach are central to the Bozeman campus's land grant mission. The campus is the hub of a network of over 50 Extension offices, seven Agricultural Research Centers, five extended nursing campuses, a widely utilized teaching and research museum, a statewide public television network and the state and national reach of the Burns Telecommunications Center.

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2007**

(continued)

<b>Student FTE for Fiscal Years Ended June 30,</b>					
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Resident</b>					
Undergraduate	7,315	7,456	7,367	7,504	7,443
Graduate	629	633	634	634	641
Total resident	7,944	8,089	8,001	8,138	8,084
<b>Non-resident</b>					
Undergraduate	2,000	1,869	1,876	1,790	1,899
Graduate	251	263	257	253	238
Total non-resident	2,251	2,132	2,133	2,043	2,137
<b>Western Undergraduate Exchange</b>	360	421	394	484	453
<b>Total</b>	<b>10,555</b>	<b>10,642</b>	<b>10,528</b>	<b>10,665</b>	<b>10,674</b>

<b>Degrees Granted - Fiscal Years Ended June 30,</b>					
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Undergraduate	1,837	1,821	1,805	1,821	1,831
Graduate	523	480	482	417	349
<b>TOTAL:</b>	<b>2,360</b>	<b>2,301</b>	<b>2,287</b>	<b>2,238</b>	<b>2,180</b>

**Campus Outlook**

MSU- Bozeman's vision is to be the "university of choice for those seeking a student-centered learning environment distinguished by innovation and discovery in a Rocky Mountain setting." MSU- Bozeman has, over its 110 year history, built a national and international reputation for excellence in undergraduate and graduate education in agriculture, business, engineering, biological and physical sciences, architecture, education, health and human development, the liberal arts and nursing. It ranks among the nation's leaders in the number of Goldwater science, math and engineering scholarships won by its students. It is an institution committed to positioning today's students for successful and meaningful lives in the global economy of the 21st century.

As the number of high school graduates in north-central and eastern Montana continues to decrease, it is important to monitor the campus's mix of traditional in-state, out-of-state, and out-of-area students to ensure a diverse, growing student population. Efforts to ensure continued growth of the out-of-state student population continue, both because the campus values the diversity these students bring to the college experience for our Montana students, and because of the financial benefits derived from their enrollment by both the campus and the community.

The mission of MSU- Bozeman is multi-faceted:

- To provide a challenging and richly diverse learning environment in which the entire university community is fully engaged in supporting student success.
- To provide an environment that promotes the exploration, discovery, and dissemination of new knowledge.
- To provide a collegial environment for faculty and students in which discovery and learning are closely integrated and highly valued.
- To serve the people and communities of Montana by sharing our expertise and collaborating with others to improve the lives and prosperity of Montanans.

In accomplishing its mission, MSU-Bozeman remains committed to the wise stewardship of resources through meaningful assessment and public accountability. A dynamic strategic plan, outlining what MSU- Bozeman aspires to achieve within the next several years, assists the campus in achieving its mission and in serving the citizens of the State of Montana. Management, faculty, staff and student leadership will continue planning and working together, striving for balance by combining appropriate levels of both expenditures and revenues, maintaining quality programs and assuring student access and success.

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**Montana Agricultural Experiment Station**

**Agency Overview**

The Hatch Act of 1887 created the State Agricultural Experiment Station system. This unique federal/state partnership, supporting agricultural and natural resource research and outreach, formalized a contract for maintaining a viable agricultural industry and an affordable supply of food and fiber for America.

In 1893, Montana endorsed the terms of the Hatch Act, creating the Agricultural College of the State of Montana and the designation of the Montana Agricultural Experiment Station (MAES). The Morrill Act of 1862 also designated the new institution as Montana's land grant college. The MAES operates under these enabling acts and subsequent federal and state legislation and amendments. The MAES has components (Research Centers) throughout Montana and the main campus (MSU-Bozeman).

The Research Centers consist of: Northern Agricultural Research Center (ARC) at Havre, Northwestern ARC at Creston, Western ARC at Corvallis, Central ARC at Moccasin, Southern ARC at Huntley, Western Triangle ARC at Conrad, and Eastern ARC at Sidney. The Research Centers are located in environments that serve the specific needs of agricultural clientele in local areas (multiple counties), as well as the broader needs of Montana's agricultural and natural resources systems. The oldest Research Centers, Central and Western, were established in 1907 with the most recent, Western Triangle, established in 1978. MAES also cooperates with the ARS Fort Keogh Livestock and Range Research Laboratory at Miles City, a partnership that has been in place since 1924 and the ARS research programs at Sidney.

The MSU-Bozeman MAES component includes the academic departments of Agricultural Economics and Economics, Animal and Range Sciences, Land Resources and Environmental Sciences, Plant Sciences and Plant Pathology, and Veterinary Molecular Biology. The majority of the MAES faculty is located on the MSU-Bozeman campus, with split appointments between research, teaching and some Extension Service, which provides unique and high quality educational opportunities that are appropriate for the region, but appeal to students from around the world.

MAES cooperates with state, regional and federal agencies on research to provide dynamic programs that generate and disseminate superior knowledge and produce advances in technology that increase the competitiveness and profitability in agricultural and natural resource systems. MAES aids agriculture in competing and succeeding in a global environment, preserving environmental quality, improving the quality of life, and capturing value added of regional and national resources within the global economy, as well as developing cutting-edge outreach and education programs for stakeholders.

**Highlights**

The MAES and the College of Agriculture continue to be successful in securing extramural funding to support research programs. In 2007, the College of Agriculture, which is predominantly funded by MAES, became the highest-ranking college in terms of sponsored program expenditures, at nearly \$30 million. The College/MAES have three departments that rank first, fourth, and eighth in a field of over 30 departments in terms of sponsored program expenditures. Funding agencies include national, regional and state from multiple sources. Research programs have impact in Montana, the region and nation.

**Outlook**

As operating costs continue to increase, scientists within the MAES find it critical to compete for external funding to maintain quality research programs to meet the needs of the state and add value to Montana's agricultural and natural resources, in light of flat federal appropriations and the comprehensive (and growing) state appropriations. Faculty are supported by MAES to the largest extent, with some academic program support. They all reside in the MSU-Bozeman College of Agriculture, which competes on a national and international basis for faculty and students. We foresee increased difficulty competing in terms of salaries, equipment, infrastructure and facilities offered or available, and will reduce the size of the operation if needed to fund increases in direct costs, operations and maintenance costs, utilities and insurance.

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**MSU Extension Service**

**Agency Overview**

The mission of the Montana State University Extension Service is to extend the positive impact of research-generated knowledge throughout the state by making it accessible and useful to individuals, families and communities, empowering them to improve their quality of life and strengthen agriculture, forestry and other businesses. To meet the educational needs of Montanans, Extension coordinates all appropriate educational and research resources in the region through campus-based specialists and county and reservation agents.

The unique funding structure of the Extension Service includes State general fund, Federal Smith-Lever and county sources. The State legislature appropriates both State general funds and Federal Smith-Lever funds on a biennial basis. Extension agent salaries are paid from Federal Smith-Lever and county funding sources. Extension specialists are paid from State general funds. Extension funds 100 percent of the benefit costs for all employees hired on current unrestricted funding from a blend of Federal Smith-Lever and State general fund dollars. Operational allocations are made to specialists based on a pre-established formula. Other operating dollars are allocated to support staff development, program development, personnel recruitment and general operating purposes.

While 12,000 students further their education on the MSU campus each year, through Extension, MSU reaches out to all of the citizens of Montana. MSU Extension has 35 campus-based specialists and 62 offices across the state serving all 56 counties and five reservations. In addition, seven Tribal College agent offices are affiliated with Extension. Because Montana's communities are as diverse as its landscape, the very structure of our organization--MSU faculty living in Montana's small towns and cities--ensures that programs are in tune with local issues and can adapt quickly to changing needs.

To deliver the practical advice and information needed by Montana's agricultural community, Extension taps into the resources of the entire university system. Research results from the Ag Experiment Station and programs like the Montana Beef Network and Sheep Institute, as well as the U.S.D.A., assist in developing programmatic responses. Primary concerns related to sustainability and profitability, natural resources and the environment, and technology transfer/value-added opportunities are addressed through outreach efforts across the state.

Extension's Family & Consumer Sciences program area serves people and families of all shapes and sizes--from the elderly to kids, from single parents to stepfamilies. Topics include food and nutrition, housing, health, family issues, personal finance, environmental health and many other subjects useful to Montanans. A special program emphasizes nutrition education for families with limited resources.

Montana 4-H annually reaches over 22,000 Montana youth, ages 6-19. About 40 percent of these youth are involved in year-long community clubs, while the rest are active through a variety of short term and special interest education programs. These youth are supported by nearly 4,000 trained adult and youth volunteers who lead local programs and activities.

Tourism development continues to be an area of major emphasis for Extension's Community Development program. Extension continues to collaborate with a variety of state and federal agencies to provide tourism development education for local communities and individuals. Over the next two years Extension will expand on its partnership with the Northwest Area Foundation to develop poverty reduction programs in 25 rural Montana communities.

The strategic plan for Extension outlines strategies and action plans for meeting the challenge of helping Montana families and communities thrive through practical application of research-based information. It is based on the integration of extensive input and advice from Montana citizens, advisory boards and Extension personnel. Working groups of Extension staff, an overall planning committee and the Montana Extension Advisory Council chart annual progress in achieving the goals and objectives for each major issue identified in the plan.

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**Fire Services Training School**

**Agency Overview**

The Fire Services Training School (FSTS) is an educational outreach program of Montana State University's Extension Service. The mission of FSTS is to build capacity in local governments for protecting citizens' lives and property, and safeguarding the community tax base and infrastructure from harm caused by fires, accidents, injuries, hazardous materials incidents and other emergencies. The FSTS is authorized in 20-31-102, MCA, and its office is located at 750 6<sup>th</sup> Street Southwest, Great Falls; however, trainers who provide instruction and resources to local fire and rescue services are strategically located around the state.

Emergencies strike Montana communities every day. In an emergency, the members of local government fire and rescue services are among the first line of defense, and the first help to arrive at the scene. The FSTS audience consists of 11,000 fire fighters, 96 percent of whom are volunteers, statewide. The Fire Services Training School provides 75 percent of its services to volunteer fire fighters and 25 percent to career fire fighters.

The FSTS curriculum includes entry level recruit academies, hazardous materials and technical rescue courses, leadership and management, as well as tactical and strategic level incident operations courses.

The Fire Services Training School has been primarily responsible for introducing new technology into local emergency forces. Rural Water Shuttles, Training-in-Context, Compressed Air Foam Systems, Positive Pressure Ventilation and Incident Management Systems have all been introduced by FSTS and adopted by community responders, resulting in safer and more efficient operations. Involvement with FSTS has resulted in significantly reduced costs for fire insurance premium payers in many communities.

When citizens require emergency help, they dial 911; when providers of that emergency help need assistance, they call the Fire Services Training School. In the 2007 fiscal year 3,072 emergency responders from 53 counties received 2,038 course hours of instruction from FSTS. The school issued a total of 44 professional training certifications and made 959 resource center loans of equipment and training materials.



**MSU- Billings**

**Campus Overview**

MSU-Billings is a comprehensive public four-year higher education institution located in Montana's largest population center, whose faculty is actively engaged in teaching, research, creative endeavors and public service. The University opened in 1927 and was initially called Eastern Montana State Normal School at Billings and was established to prepare teachers for elementary schools in eastern Montana. MSU-Billings has grown, with the city of Billings and Yellowstone County, into the major higher education center of south central Montana. The University consists of six colleges: the College of Arts and Sciences, the College of Business, the College of Education, the College of Professional Studies and Lifelong Learning, the College of Technology, and the College of Allied Health Professions. MSU-Billings offers a full complement of one and two year certificate programs, associate degrees, and bachelor and master degrees, as well as pre-professional academic offerings in a number of fields. Several academic programs are unique to the Montana University System.

MSU-Billings is accredited by the Northwest Association of Schools and Colleges. It is accredited by the National Council for the Accreditation of Teacher Education for preparing elementary and secondary teachers and school counselors through the Bachelor of Science and Master of Education degrees and the Master of Science in Special Education degree. MSU-Billings is also accredited by the National Association of Schools of Music, the National Association of Schools of Art and Design, and the Council on Rehabilitation Education. The Athletic Training Program is certified by the Commission on Accreditation of Allied Health Education Programs. College of Technology programs include accreditation by the National Automotive Technicians Education Foundation, the Montana Board of Nursing, and the Commission on Accreditation of Allied Health Education Programs. MSU-Billings has achieved candidacy status for and continues progress toward Association to Advance Collegiate Schools of Business accreditation for its College of Business.

Public service is integral to the mission of the University. Its two primary public service entities are Yellowstone Public Radio and the Montana Center on Disabilities, a comprehensive education, rehabilitation, and diagnostic center serving Montanans with disabilities.

	<b>Annual Student FTE for Fiscal Years Ended June 30,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Resident</b>					
Undergraduate	2,845	2,910	2,890	2,937	2,864
College of Technology	665	634	638	638	552
Graduate	252	287	288	298	262
Total Resident	3,762	3,831	3,816	3,873	3,678
<b>Non-resident</b>					
Undergraduate	92	102	85	75	81
College of Technology	6	7	12	8	13
Graduate	33	28	31	24	29
Total non-resident	131	137	128	107	123
<b>Western Undergraduate Exchange</b>					
Main Campus	211	225	189	169	146
College of Technology	29	26	18	14	15
Total Western Undergraduate Exchange	240	251	207	183	161
<b>Total</b>	<b>4,133</b>	<b>4,219</b>	<b>4,151</b>	<b>4,163</b>	<b>3,962</b>

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2007**

**(continued)**

	<b>Degrees Granted - Fiscal Years Ended June 30,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
College of Technology	224	186	183	185	169
Undergraduate	513	524	525	517	519
Graduate	110	99	115	136	103
<b>Total</b>	<b>847</b>	<b>809</b>	<b>823</b>	<b>838</b>	<b>791</b>

MSU-Billings has made a substantial investment in distance learning by developing full degree programs, and general education, online. This investment will continue in order to provide educational offerings to Montana citizens who are place bound or time bound. Increasing opportunities for students to participate in internships and cooperative education experiences continues to be a high priority for the University. Additional funds have been allocated to increase the number of supervised internships and cooperative experiences available to students in all disciplines.

**Campus Outlook**

MSU-Billings continues to serve our students and community with superior levels of excellence. Base budgets have been reallocated to develop a student-centered learning environment using Continuous Quality Improvement to ensure assessment of learner growth and student outcomes; and increased academic student support services.

Program innovations include Health Care Pathways 2+2 pilot programs to address affordability, transferability and adult learning needs; and applied technologies to expand distance learning opportunities. MSU-Billings has seen growth in undergraduate programs with more than 100 fields of study in business, arts and sciences, allied health and education. New degree programs were added in biological sciences, general science and criminal justice. The College of Arts and Sciences continues growth in enrollments and graduations.

Grants and research production yielded a record \$8.5 million during FY07, including grants for training American Indian educators; research on immunological diseases; School District #2 partnership on wildlife population density research; cultural inventory of Yellowstone River users; and application of fuel cell technology.

The University's downtown Billings campus facilities were expanded to house the College of Professional Studies and Lifelong Learning, to assist with the development of downtown Billings and to serve the educational needs of the area's employees and businesses. The downtown campus plays a key role in community-wide work force development and training.

Because Billings is the primary health care center of the region, MSU-Billings partnered with the health care industry to meet its educational needs and established the College of Allied Health Professions with key programs in athletic training, health and human performance and rehabilitation and human services.

MSU-Billings has an office in Red Lodge, Montana as part of an ongoing initiative to reach out into the communities the University serves. The office will also assist students and prospective students with academic and admissions information.

For the eighth consecutive year, MSU-Billings has been ranked as one of the nation's 'Best Colleges' by *U.S. News and World Report*, for undergraduate through master's level academics, in the latest edition of "America's Best Colleges 2007".

The College of Technology has continued its transition to a true community college by expanding offerings and programs. Enrollment growth has been significant at the MSU-Billings College of Technology. With the College of Technology focusing on the needs of two-year education in the Billings region, it is anticipated that the growth in enrollment will continue. A new \$9 million state-of-the-art academic facility at the College of Technology was approved by the 2005 Legislature and is expected to be completed in time for classes in spring of 2008. The 2007 Legislature granted an additional \$2.3 million for equipment in the new building. The Board of Regents Workforce Development Committee allocated over \$1 million in equipment funds to the College of Technology. A new

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2007**

**(continued)**

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Construction Trades Training Program was developed in partnership with the Montana Contractors' Association, Inc. The College of Technology was awarded \$2.8 million in federal job training grants.

The MSU-Billings Foundation completed the People, Pride & Promise Campaign for Excellence at Montana State University-Billings in December of 2006. This five-year effort had an initial goal to raise \$21 million for scholarships, academic programs, faculty and facilities. This goal was far exceeded, ending with over \$30 million in gifts and pledges raised to date. The Foundation distributed over \$1 million in scholarships in FY07.

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2007**

(continued)

**MSU- Northern**

**Campus Overview**

Established by the Legislative Assembly of the State of Montana in 1913, "The Northern Montana Agricultural and Manual Training School" opened in 1929 under the name "The Northern Montana School." In 1931, the common use of "Northern Montana College" came into existence. In 1994, Northern Montana College became Montana State University-Northern (MSU-Northern) as part of the restructuring with Montana State University in Bozeman.

Montana State University-Northern offers programs of professional preparation emphasizing discipline mastery, critical inquiry, and social responsibility in:

- teacher preparation
- mechanical and engineering technologies
- business and computer information systems
- nursing
- arts and sciences

MSU-Northern applies emerging technologies in degree programs ranging from the certificate to master's level. MSU-Northern produces well-educated students who are capable of decisive action and application of new ideas. The university is committed to excellence in teaching, service to its region and the state, and applied research and scholarships.

MSU-Northern is accredited by the Northwest Association of Schools and Colleges. It is also accredited by the National Council for the Accreditation of Teacher Education for preparing elementary and secondary teachers through the Master of Education degree. MSU-Northern's accreditations also include the National League for Nursing Accrediting Commission, the Montana State Board of Nursing, the Accreditation Board of Engineering Technology, the National Automobile Technicians Education Foundation, the American Design Drafting Association, the International Assembly for Collegiate Business Educations, and the Postsecondary Ag Students.

MSU-Northern values individualized attention to its students, experientially based learning, and creating a culturally rich and intellectually stimulating environment. From its North Central Montana High Plains main campus, the University serves as a regional cultural center and maintains strong partnerships with communities, education, business and industry.

<b>Student FTE for Fiscal Years Ended June 30,</b>					
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Resident</b>					
Undergraduate	1,010	1,071	1,113	1,216	1,231
Graduate	75	71	95	113	124
Total resident	1,085	1,142	1,208	1,329	1,355
<b>Non-resident</b>					
Undergraduate	43	46	50	46	43
Graduate	0	0	0	0	2
Total non-resident	43	46	50	46	45
<b>Western Undergraduate Exchange</b>	79	67	61	56	46
<b>Total</b>	<b>1,207</b>	<b>1,255</b>	<b>1,319</b>	<b>1,431</b>	<b>1,446</b>

<b>Degrees Granted - Fiscal Years Ended June 30,</b>					
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Undergraduate	311	306	304	368	358
Graduate	33	14	54	31	79
<b>Total:</b>	<b>344</b>	<b>320</b>	<b>358</b>	<b>399</b>	<b>437</b>

**Campus Outlook**

MSU-Northern is located in the rural, northern region of Montana. With decreasing populations across the State, MSU-Northern has had to adapt to its decreasing enrollment. Student enrollment drives a large portion of operating revenues, and also affects the University's level of State funding. Northern has begun to utilize partnerships and alternatives, innovative teaching, and alternate delivery methods. Partnerships with the tribal colleges across Montana, which help them expand their program offerings in the realm of 4-year Baccalaureate degrees, is one such example. Northern will also continue to explore program offerings at our sites in Lewistown and Great Falls.

**MSU- Great Falls College of Technology**

**Campus Overview**

The Great Falls College of Technology (COT) is a stand-alone affiliate of Montana State University primarily serving north-central Montana. The COT offers one- and two-year technical instructional programs, core curriculum offerings and specialized training in the Allied Health, Business Occupations, Arts and Sciences and Trade and Technology disciplines. Several of the Allied Health programs are unique to the State and the region. Upon completion of coursework, students are awarded an applicable Certificate of Applied Science or an, Associate of Applied Science, Associate of Science or Associate of Arts degree. The College has a full complement of student, academic and administrative services reflective of a larger campus.

The COT is also the designated site for the Great Falls Higher Education Center for the Great Falls region representing the University System. The Higher Education Center is designed to bring specific instruction from all campuses of the University System on an as-needed basis and may include specialized training, baccalaureate, masters or doctoral level offerings.

The Great Falls Vocational – Technical Center was established by the Montana State Legislature in 1969 to offer employment training in vocational and technical fields. In January 1994 the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. Montana State University-Bozeman, Montana State University-Billings, Montana State University-Northern and Montana State University-Great Falls College of Technology are related through common management; however, they are separate and distinct entities. The mission of Montana State University-Great Falls College of Technology is to prepare students for immediate employment or for transfer to another higher education institution.

The COT is fully accredited by the Northwest Association of Schools and Colleges, Commission on Colleges. Various programs are accredited by the American Dental Association, American Health Information Management Association, The Commission on the Accreditation of Allied Health Educational Programs, American Association of Medical Assistants, Commission on Accreditation in Physical Therapy Education, Montana State Board of Nursing, The Committee on Accreditation of Respiratory Care Programs, and the Association of Surgical Technologists.

The COT student population has grown dramatically over the last five years with a cumulative increase of approximately 15%. Nearly all our students are Montana residents.

	Annual Enrollment Data (FTE)				
	2007	2006	2005	2004	2003
<b>Resident</b>	1,153	1,155	1,078	1,085	1,040
<b>Non-resident</b>	59	31	14	13	13
<b>Total FTE</b>	1,212	1,186	1,092	1,098	1,053

The numbers of degrees and certificates granted have increased 21% during the past five years.

	Degrees and Certificates Granted				
	2007	2006	2005	2004	2003
Certificates	40	52	36	65	39
Associate of Science	30	35	41	29	28
Associate of Applied Science	131	98	99	102	99
<b>Total</b>	201	185	176	196	166

**Campus Outlook**

As a result of the growth mentioned above, the College of Technology has experienced significant challenges involving inadequate space for a number of years. In early 2005, the Montana State Legislature approved \$11 million for campus expansion. A 45,000 square foot two-story building west of the original facility in Great Falls is nearing completion and is scheduled to be occupied in January 2008. The new building will include an expanded library and student computer lab, health science classrooms, additional meeting rooms, science laboratory space and faculty offices.

The 2007 Montana State Legislature appropriated \$3million for a separate Construction Technologies building. Groundbreaking took place in August 2007 with occupancy of the new space tentatively scheduled for Fall 2008. This building will address the extreme need in north-central Montana for trained skilled trades workers entering the workforce.

The COT has expanded course offerings to the Bozeman area and has a physical location on the Bozeman campus. The COT provides specialized instruction and workforce development to the Gallatin Valley. Bozeman area residents are also able to enroll in COT programs including aviation and welding technology in which students can attain a Certificate of Applied Science in Welding Technology, an Associate of Applied Science in Avionics or an Associate of Applied Science in Interior Design.

In addition, the College of Technology offers specialized training in Technical Centers located in Great Falls and Bozeman. These Centers address specific training needs of the local business communities.

December 4, 2007

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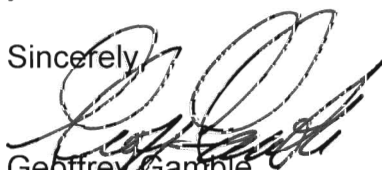
LEGISLATIVE AUDIT DIV.

Mr. Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division  
State Capitol, Room 135  
P.O. Box 201705  
Helena, MT 59620-1705

Dear Mr. Seacat:

Montana State University would like to thank the Legislative Audit Division for their time in auditing the financial statements for the fiscal year ended June 30, 2007. We feel this audit was productive and instrumental in continually improving the financial reporting of all Montana State University campuses. We look forward to working with you again next year.

Sincerely,



Geoffrey Gamble  
President

GG/sm

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